

IMPACT OF DEFENSE PROCUREMENT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON DEFENSE PROCUREMENT

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

EIGHTY-SIXTH CONGRESS

SECOND SESSION

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IMPACT OF DEFENSE PROCUREMENT

THURSDAY, JANUARY 28, 1960

U.S. SENATE,
SUBCOMMITTEE ON DEFENSE PROCUREMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room G-308, New Senate Office Building, Senator Paul H. Douglas, chairman, presiding.

Present: Senators Douglas, Sparkman, O'Mahoney, Javits; Representatives Patman and Curtis.

The CHAIRMAN. The subcommittee on Military Procurement will come to order.

Due to the weather conditions, Senator Javits is delayed in flying in from New York, and Congressman Curtis from Missouri, but we will go ahead with the members who are here.

The question of military supplies is one of the most important and relatively most ignored features in Government. For the fiscal year 1960, estimates are that the Defense Department will spend \$23.9 billion on supplies and equipment. This is almost precisely 30 percent of the total national budget.

Our very competent staff associates, Mr. Ray Ward and Mr. Richard J. Newman, have prepared a chart which shows the magnitude of the operations, with the Department of Defense having property holdings of \$150 billion, of which \$33 billion is in the form of land, buildings, and fixed equipment, \$70 billion in the form of major weapons, and \$47 billion in the form of supplies.

I hold in my hand a report on Federal real and personal property, U.S. Government, issued by the Committee on Government Operations. These figures are as of June 30, 1959. On page 135 of that report the total supply system inventories as of that date for the Department of Defense are listed as \$44.2 billion. This differs slightly from the \$47 billion figure, as it is on a different basis. Of this, \$3 billion of the \$44.2 billion are undistributed stocks, \$15.3 billion peacetime operating stocks, \$11.5 billion mobilization reserve stocks. Putting these three together, we get a total of something like \$30 billion.

Then economic retention stocks, contingency retention stocks, and excess stocks, which I think is the more charitable interpretation—all three could be regarded as excess—come to about \$13 billion.

There is a very real question as to whether there is not excess in the preceding \$30 billion. The Department of Defense has written this off its surplus stocks at the rate of \$6 billion a year and then \$8 billion, and now at the rate of \$10 billion a year, and they are also paying for the direct costs of sales. They net somewhere between 2

and 2½ percent on the original cost of the equipment and supplies. They thus take a loss of between 07.5 and 08 percent of the annual volume of sales of from \$6 billion to \$10 billion.

There are various questions raised by this. First, how and why were these excess stocks accumulated in the first place? Second, are they being disposed of in the most efficient manner? Third, have the original contract terms and prices paid been excessive? Fourth, is the Department of Defense buying new material, either identical to or substantially similar to the material which is being disposed of, and a whole series of other questions.

We are very fortunate in having the Comptroller General of the United States, Mr. Joseph Campbell, with us this morning. Like his predecessor, Mr. Lindsay Warren, I regard Mr. Campbell as one of the great public servants of this country, and I want to commend him and his staff for the work which they have been doing. These men do a lot of hard and patient drudgery. They are exposed to the fire of the departments whose expenditures they scrutinize. They do not receive the popular approval and commendation which I think they deserve, and they must at times feel very lonely and friendless. I want to assure them that the Congress, whose agents they are, not the agent of the Executive, is deeply appreciative of their work. While the public does not fully express its gratitude, there is a very real feeling that they are watchdogs of the public purse. We should remember that it is the people's money which is being spent.

Now, Mr. Campbell, we are very glad to have you here. You are among your friends. You have a long term of office, fortunately. You cannot be removed. I think the term is 14 years.

STATEMENT OF JOSEPH C. CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY LAWRENCE J. POWERS, JR., ASSISTANT TO THE COMPTROLLER GENERAL; CHARLES BAILEY, DEPUTY DIRECTOR, DEFENSE ACCOUNTING AND AUDITING DIVISION, GAO; AND J. EDWARD WELCH, DEPUTY GENERAL COUNSEL, GAO

Mr. CAMPBELL. Fifteen years.

The CHAIRMAN. You have only served about 5 years?

Mr. CAMPBELL. Yes, sir.

The CHAIRMAN. So I hope you continue with unabated vigor and without fear of the future. Like the President, you cannot succeed yourself.

Mr. CAMPBELL. That is right. Thank you, Mr. Chairman. I have with me today Mr. Lawrence Powers, who is on my right. Mr. Powers is at present Assistant to the Comptroller General, but for some time past has been Director of our Defense Accounting and Auditing activities. I also have with me Mr. Charles Bailey, Associate Director of that Division, and also the Deputy General Counsel of the General Accounting Office, Mr. Welch, on my left.

Mr. Chairman and members of the subcommittee, at your request, I appear before you today to present a summary of the more significant matters disclosed by the audits and examinations made by the General Accounting Office in the Department of Defense and the three

military departments during the past 2 years. We have included in this summary those matters which we believe will be of particular interest to your committee. They pertain primarily to military procurement, transportation, storage, disposal, and other supply management activities.

With estimated budget expenditures for the fiscal year 1960 for the Department of Defense military functions, together with military assistance programs, totaling approximately \$42.8 billion, or 55 percent of the Federal budget, close control and prudent management of defense and military assistance expenditures are essential. In our reports we have pointed to areas in which significant improvements can be made in the Department's controls and management and have made recommendations which, we believe, will lead to such improvements. In our statement today, we will summarize these areas and recommendations and, to the extent possible, give you the corrective action already taken or contemplated by the military departments concerned. However, time has not permitted us to update such information in all cases.

Our findings will be discussed under four general activity classifications:

- Procurement.
- Supply and services management.
- Military assistance program.
- Other activities.

SCOPE OF PROCUREMENT--NEGOTIATED CONTRACTS 80-90 PERCENT OF TOTAL

Annual budget expenditures for defense procurement exceed \$17 billion and account for approximately 40 percent of the total Department of Defense budget including military assistance. It has been estimated that as much as 80 to 90 percent, by value, of all military purchases are made by negotiated contracts. Where contracts cannot be awarded on the basis of full and free competition under advertised bid and award procedures, which is the preferred method of Government procurement, the Congress has authorized military departments to place contracts by negotiation under circumstances specified in the Armed Services Procurement Act of 1947. Procurement by negotiation is designed for use in situations in which procurement by advertised bidding is either impractical or inappropriate. Negotiated contract prices are based largely on estimated costs to produce the articles required. Such estimates must, therefore, be as sound and realistic as possible in order to arrive at fair and reasonable prices. While competition can, in many instances, be maintained in negotiated procurements, such competition is not always effective and the Government does not always have the assurance of fair and reasonable pricing normally afforded by the forces of full and free competition.

The complexity of modern-day equipment, devices, and systems needed by the Department of Defense makes it increasingly difficult to secure effective competition or to forecast production costs with a reasonable degree of accuracy. Preparation of accurate cost estimates upon which to base reasonable and equitable contract prices requires the sound and earnest cooperative efforts of the contracting officials

of both the Government and the contractor. Cost estimates represent not only a basis for establishing prices for a given item or service but can also provide the contractor with an incentive for attaining efficient and economical operations. For example, under firm fixed-price contracts, prices based on estimates of the cost of production plus a profit allowance give the contractor an incentive to hold production costs to the minimum in order to earn a greater profit. Under incentive-type contracts, production cost estimates are used to establish target costs which, together with the target profit, make up the target price. The contractor's incentive participation in cost increases or reductions is determined by comparing the cost actually incurred in performing the contract with the target costs, hence the incentive to reduce actual costs of performance. However, if cost estimates or targets are not realistically prepared, that is, if they are either intentionally or inadvertently stated higher than current production cost experience and other available pertinent information would indicate to be reasonable to anticipate for future production, profits resulting from lower costs become a windfall rather than profits earned through efficiency.

Our examinations have disclosed numerous cases where negotiation of prices has lacked the diligent administration and cooperation on the part of both contracting parties necessary to avoid excessive costs to the Government. The most common types of uneconomic procurement practices and their causes are summarized as follows:

Failure to negotiate close prices

Our examinations have disclosed many instances where we believe the Government paid excessive prices for goods or services received because of the administrative agency's failure to obtain and adequately evaluate latest available cost data in establishing prices and incentive targets. In 16 cases reported to the Congress, excessive costs aggregated about \$27.8 million. To date \$18 million of these excess payments, including civil penalties, has been recovered by the Government. In many of these cases the Government's contract negotiators did not adequately review cost data submitted by the contractor in support of pricing proposals and frequently did not request an audit of cost data when obtained. Typical of this deficiency in administrative procedure was a case in which the contractor's cost estimate submitted in support of his price proposal included estimates of subcontracted work at prices paid on previous subcontracts. However, these prices were higher than the maximum prices established between the prime contractor and the subcontractor prior to negotiation of the prime contract price. The Government negotiator did not obtain and consider the information on the lower subcontract prices in effect at the time of negotiations. As a result, the Government was overcharged, in this case, in excess of \$1.5 million.

We have found other cases in which the administrative agencies did not achieve close pricing because prices were negotiated before contractors had sufficient production experience to develop cost data upon which to base reasonable prices. In such cases, it may be expected that contractors will include in their price proposals contingency factors to protect themselves adequately against losses. Recoveries in two of these cases totaled in excess of \$2.7 million. In other cases, excess costs were not recovered.

PRIME CONTRACTOR REWARDED FOR HIS EFFICIENCY

Another area in which agency contracting officials have frequently failed to achieve close pricing involved the failure of prime contractors or agency officials to obtain and adequately evaluate cost data in support of price proposals by subcontractors. These included cases where (1) cost information upon which to evaluate the reasonableness of prices was not requested by the prime contractor, (2) firm fixed prices were accepted before the subcontractor had sufficient production and cost experience to forecast production costs accurately, and (3) the prime contractor did not obtain the most current available cost data in support of the subcontractor's price proposal. Excessive subcontract cost estimates result in excessive prime contract prices and unwarranted profit to the prime contractor since the prime contractor, generally, also receives a profit on subcontractors' charges. In situations of this nature the prime contractor, in practice, is rewarded for his inefficiency.

Benefits of competition in procurement prevented by inadequate provisions for use of contractor-prepared drawings developed for and at expense of the Government

We believe that the Government is frequently denied the benefits of competition through failure of procurement officials to obtain or reserve the right to obtain manufacturing drawings prepared by contractors at Government expense. In a selective review at one large procurement office, we found that the Government has not been in a position to realize the maximum benefits of competition in many procurements of military items, components, and spare parts. This was due to inadequate contract provisions requiring that the Government be furnished with complete manufacturing drawings of items developed for and at the expense of the Government to be used in the subsequent procurement of the same items by the Government. We also found unnecessarily restricted interpretations by the procurement office of prior contracts where use of contractor-furnished drawings is not expressly restricted. The procurement office's controls and procedures were inadequate regarding the receipt and issue of drawings for procurement purposes. In our tests, we found that over 25 percent of the requests from other procuring activities for manufacturing drawings to be used in reprourement were denied because their records showed that the Government did not have the right to reproduce and distribute the drawings to other contractors for procurement purposes.

Other uneconomical procurement practices

There are other procurement practices disclosed by our audits which if corrected would contribute substantially to a more efficient procurement operation. For example, failure to adjust contract prices for changes in the scope of contract work has resulted in excess charges to the Government. In an off-shore procurement of 120 aircraft engines, the record of negotiations indicated an agreement that about one-third of the engines to be delivered would be of a certain type while the balance of the engines to be furnished would be an improved and more expensive model. Because of delays in the development of the new model, the entire contract quantity was filled with the original and less

expensive model, resulting in excess costs to the Government of \$874,000. After bringing this matter to the attention of proper officials, an additional quantity of the less expensive engines for which a valid requirement existed was delivered by the supplier to make up for the deficiency.

We have found instances where the cost of Government procurement has been unnecessarily increased as a result of requiring contractors to carry insurance on Government-owned property. Under certain lease agreements, military departments had required contractors to carry property damage insurance on Government-owned facilities even though virtually all the contractor's production with those facilities had been on contracts with the Government.

The CHAIRMAN. May I interrupt a minute?

Mr. CAMPBELL. Yes, sir.

The CHAIRMAN. Do you mean to say that the Government required the contractor to take out insurance on property which the contractor did not own, but which the the Government owned, and which if damaged or destroyed by fire would not occasion any property damage to the contractor?

Mr. CAMPBELL. That is the kind of case we are discussing here.

The cost of such insurance was generally reflected in the prices charged to the Government. This not only resulted in unnecessary cost to the Government, but was inconsistent with the Government's policy of self-insurance. In one case, we estimated the unnecessary insurance costs to be \$45,000 annually.

Failure to obtain reimbursement for commercial use of Government-owned facilities in the hands of contractors has been disclosed by our reviews. In one instance, a contractor used Government-owned facilities for commercial production for approximately 8 years without paying rent.

The CHAIRMAN. Was there a large amount of Government property involved in this case?

Mr. CAMPBELL. Yes. This is a rather large piece of property and expensive piece of property.

The CHAIRMAN. Do you have any estimate as to what the capital value is?

Mr. CAMPBELL. We do not have that figure.

The CHAIRMAN. We have a synopsis of all your reports. If you will give us the number of the decision, we may be able to find it.

Mr. CAMPBELL. That is B-125096. I have an outline of that report before me, Mr. Chairman. We don't have that figure of property value.

The CHAIRMAN. I will ask Mr. Campbell to supply the name of the company and the amounts involved for the record.

Mr. CAMPBELL. Mr. Chairman, that matter is now or has been before the Board of Contract Appeals in the Air Force. The company is Curtiss-Wright Corp., Wright Aeronautical Division, at Woodbridge, N.J. With respect to the figure that you requested, I am not sure of that, but I understand that the original acquisition cost was approximately \$15 million as of June 30, 1956. The rental accumulation through June 30, 1957, was estimated to be \$4.5 million. This computation of \$4.5 million was by the Department.

Failure of the contractor to comply with contract terms concerning the furnishing of equipment usage data, compounded by initial lack of aggressive action on the part of Government procurement officials and subsequent controversies between the parties over the interpretation of the contract rental formula, has resulted in an unreasonable delay in reaching agreement on a substantial amount of rental revenue due the Government. For the entire period through calendar year 1956, the Air Force computed rentals due of \$1,572,380. Upon appeal to the Armed Services Board of Contract Appeals, the contractor proposed a rental formula, with alternative elements, which resulted in calculations ranging from \$408,109 to \$520,082. The Board in its decision dated September 23, 1959, established rentals due the Government through 1956 at \$652,298. The Air Force filed a motion for reconsideration and on December 16, 1959, the motion was denied. We understand that the Board's decision will establish a formula on which to settle additional rentals due for 1957, 1958, and 1959. Also, in this case, there remains the question of settlement of substantial rentals due for facilities in the hands of subcontractors.

The military departments and the Department of Defense have taken action designed to correct many of these uneconomical practices. The Armed Services Procurement Regulation has been revised to improve negotiation procedures by requiring thorough analyses of contractor's proposals and by requiring that current, complete, and correct cost or pricing data be obtained before decisions are made on contract prices. Revisions of the regulation have also been made to strengthen administrative policies and procedures in the areas of (1) sole source procurement, (2) surveillance over the pricing of subcontracts, (3) establishing prime contract prices where subcontract prices are not firm, and (4) insurance on leased Government-owned property where more than 75 percent of the total productive capacity of the facilities will be used on Government work. Individual military departments have also taken certain actions to improve policies and practices in many of these areas.

The CHAIRMAN. I wonder if you could tell us when the Defense Department took corrective action?

Mr. CAMPBELL. I believe it was the early part of January 1959. It was just about a year ago.

The actions taken by the Department of Defense to improve procurement procedures and practices are commendable. We believe, however, that the problem of achieving efficient and economical procurement requires an intensive and continuing training effort to improve the skills of contract administrative personnel. There is also an ever-pressing need for followup action to see that revised policies adopted by the Department of Defense are being followed and that full cooperation is extended by the contractors.

We believe, further, that there is a need to obtain greater competition in awarding of contracts to supply the needs of the Department of Defense. In our opinion, effective competition gives greater assurance that the Government will receive an effective and durable product in a reasonable period of time and at the lowest prices obtainable. Even in those cases where lack of development or the complex nature of the item being procured precludes the use of formal advertising, competitive forces should be utilized to the maximum ex-

ment practicable. Competition in the design, research, and development stages would maintain competitive forces up to the production stage which would place the Government in the advantageous position of being able to select the most acceptable product available to satisfy its needs.

The CHAIRMAN. Mr. Campbell, I am very glad you mentioned that point. A number of Members of Congress have been urging the greater use of competition in the awarding of contracts, notably Congressman McCormack, of Massachusetts, and Congressman Curtis, of Missouri. The chairman and various other Members of the Senate have from time to time urged this practice. We have not noticed any particular increase in the percentage of contracts awarded under the competitive system despite our urging. We have felt that our efforts were rather ineffectivo so far as the following of our advice by the Defense Department is concerned. We feel reassured and shored up by your recommendation. I hope very much that the Department of Defense will take the various recommendations to heart.

Representative PATMAN. Mr. Chairman, may I add to that the fact that I believe in every single report to the Small Business Committee and this committee, 10 of them, we have strongly urged the competitive letting of contracts, always feeling that small business can take care of itself under competition.

The CHAIRMAN. I am puzzled by the action of the Defense Department because as I understand it, when we originally permitted negotiated contracts, it was understood that these were to be carried out only in the most extraordinary circumstances, where because of reasons of military security or uniqueness of product, it was not desirable or possible to obtain competitive bidding. But is it your impression that negotiated contracts have been and are now being carried out by the Defense Department in areas where it would be relatively easy to obtain competitive bidding?

Mr. CAMPBELL. We think that is true, Mr. Chairman.

SUPPLY AND SERVICE MANAGEMENT ACTIVITIES

The supply and service management activities of the military departments represent a vast operation of logistical supply, maintenance, and repair. They include large warehousing and parts supply activities, vehicle and aircraft maintenance shops, ship repair operations, and numerous other activities with a similar mission. Like commercial merchandising, efficient and successful operation of these activities requires a careful and studied analysis of probable demands for the item or commodity stocked, as well as efficient management to maintain an uninterrupted flow of vital materials to be available when and where needed without undue losses in storage or in transit. Because of the rapid technological advances in the design of weapons, vehicles, and other military support equipment, obsolescence is a critical factor for consideration in avoiding the overstocking of spare parts, accessories, maintenance, tooling, and supplies.

EFFECTIVENESS OF SUPPLY MANAGEMENT

Our audits of the military supply and service activities are aimed at evaluating the effectiveness of management in its procurement of and control over supply stocks. This includes computation of requirements, distribution of supplies, distribution and disposal of excess stocks, length of time or degree of unserviceability of equipment to be repaired, and other matters relating to the effectiveness and efficiency of the management of supply and service activities. Our audits also encompass the interservice supply support program. Major findings in these areas, briefly stated, are as follows:

Need for improvement in the interservice supply support program

In our opinion, the Department of Defense has not developed effective procedures for redistributing inventories of excess or long supply among military services having a requirement for such stock. Lack of effective interservice procedures permits simultaneous procurement and disposal of the same items by two or more services. In one case, we found that during the same period one service had a long supply and excess of aircraft engines and accessory parts available for interservice use while another service was placing orders for identical items. The interservice supply procedures followed by each service did not accomplish redistribution of available material. As a result of our request that both services consider the matter, arrangements were made for the transfer of stocks valued at \$1.6 million.

CASES OF CONCURRENT BUYING AND SELLING

In another case, reduction in Air Force requirements during fiscal year 1958 left the Air Force with over \$6 million worth of excess H-19 helicopter spare parts at Middletown Air Materiel Area. Some of these had been authorized for disposal. At the same time the Army had outstanding orders for production of H-19 helicopters and spare parts which had been placed prior to the Air Force program reductions. When notified directly by Middletown Air Materiel Area at our request, the Army subsequently requisitioned about \$3.4 million worth of the Air Force excess spare parts.

Need for improved supply management controls

Many of the supply activities we have examined have inadequate procedures or lack proper records or other data to determine their stock position or compute their requirements within a reasonable degree of accuracy.

EXCESS MARINE CORPS BLANKETS

The CHAIRMAN. Mr. Campbell, may I interrupt a minute? In my own inquiries some months ago, I developed the fact that the Marine Corps had very large quantities of excess blankets, which the Army and other services refused to take, although they were purchasing blankets, because the Marine insignia had been stamped upon the original blankets. They didn't want to have soldiers sleep under blankets which had the Marine Corps insignia. Is my information correct in that case?

Mr. CAMPBELL. I am not familiar with that case.

The CHAIRMAN. I think the GSA brought that to my attention. I am sure it is correct. This is another illustration of what you have been developing. Thank you. Would you continue.

NEED FOR OVERALL SUPPLY-DEMAND CONTROLS

Mr. CAMPBELL. As a result, valid requisitions are not filled in a timely manner, invalid requirements are generated and stock excesses accumulate. In many cases there are no satisfactory controls to assure that, when requirements are reduced, outstanding orders will be screened to cancel any unneeded quantities on order. For example, at one aircraft parts supply activity we found that over \$20 million worth of spare parts on hand were in excess of current program needs and about another \$20 million worth were on order.

The CHAIRMAN. This is extraordinary. Hitherto you have been discussing the fact that one service could have a surplus, another have a deficit, and there would be no transfer of the surplus between services. Now you are saying here that there is one service, the Air Force, and one supply center, which was simultaneously ordering \$20 million worth of parts at the same time that they had over \$20 million worth of approximately the same parts in stock?

Mr. CAMPBELL. That is correct.

The CHAIRMAN. In other words, this is a case where not alone within a single service but in one center the left hand did not know what the right hand was doing or ignored what the right hand was doing. Would you be willing to supply for the record what this aircraft part supply activity was?

Mr. CAMPBELL. That is San Antonio Air Materiel Command of the Air Force.

NEED FOR DISCIPLINARY ACTION

The CHAIRMAN. I suppose there are officials of the Air Force here. When they testify, I would like to have them specify what disciplinary action, if any, has been taken to correct this situation.

Mr. CAMPBELL. For your information, Mr. Chairman, the reference number of our report is B-133019.

When we called attention of proper officials to these excess stocks, requirements were screened and orders approximating \$16 million were canceled.

The CHAIRMAN. How much is the total cost of your office to the Government?

DOUBLE COST OF GAO DEFENSE AUDIT STAFF AMORTIZED ON ONE REPORT

Mr. CAMPBELL. The total cost of the entire General Accounting Office is approximately \$39 million.

The CHAIRMAN. Here is 40 percent of the cost of your office recovered on just one item alone.

Mr. CAMPBELL. I think in fairness to our Defense Office, I should point out that only about a fifth of that cost has to do with the performance of this type of work in the Defense Department.

The CHAIRMAN. So that you recovered twice the cost of your activities specifically dealing with defense on this one correction alone.

Mr. CAMPBELL. I think that is a fair statement.

The CHAIRMAN. I want to commend you. I wish there were more Government departments who had the interest of the taxpayers at heart as you do.

Mr. CAMPBELL. Of course, I don't agree that you can measure the results of the efforts of the General Accounting Office.

The CHAIRMAN. There is a general influence, certainly. But here this is a specific influence.

Mr. CAMPBELL. Yes, sir.

\$8 MILLION IN ORDERS CANCELED

In our review of an Army Supply Center in Japan, we found that requisitions were not being canceled for items in an excess position nor was adequate consideration given to the downward trend in requirements. For example, we found that stock on hand and on order greatly exceeded the amount authorized for a terminal radio (MRC-69) and component parts being procured in support of the U.S. forces in Korea. When this was pointed out to supply officials, action was taken immediately to cancel requisitions amounting to over \$4 million. Later additional requisitions amounting to \$2.4 million for MRC-69 and MRC-54 components and other related items were also canceled. As a result of our findings, the management of this supply center took immediate corrective action and requisitions for overstocked items totaling over \$8 million were canceled. This cancellation represented over half of the supplies on order at the time of our review.

The CHAIRMAN. In other words, this item also covers about the entire cost of your surveillance of the activities of the Defense Department.

Mr. CAMPBELL. Yes, sir.

\$1 BILLION OF EXCESS SUPPLIES IN NAVY SHIPYARDS

We found that certain Navy shipyards have consistently overestimated their needs for material for ship overhaul and conversion work. As a result, enormous quantities of surplus material have been accumulated which, experience shows, will ultimately be disposed of at a fraction of its cost. During the fiscal years 1956, 1957, and 1958, a sizable amount of Navy inventories have been classified as excess to its needs. This included nearly \$850 million worth of those materials which are used almost exclusively for shipwork, that is, electronic and shipboard equipment and ship repair parts.

The CHAIRMAN. In other words, almost a billion dollars of excess supplies had been accumulated.

Mr. CAMPBELL. Yes, sir.

The CHAIRMAN. For ship overhaul and conversion work alone?

Mr. CAMPBELL. Yes, sir.

IMPROPER REQUIREMENTS COMPUTATIONS

Improper requirements computations for peacetime operating stocks of the U.S. Army, Europe, have resulted in substantial quantities of material being requisitioned, shipped, and stored in excess of actual requirements. In other cases, computed stock requirements were lower than warranted. Reviews of stockage requirements computations by supply control agencies and the Army Communications Zone Command were inadequate to detect or prevent inaccuracies and to assure adjustments. Details of our findings in these areas involve classified information.

POOR USE OF VALUABLE WAREHOUSE SPACE

When excess stocks accumulate, valuable warehouse space is used and is not available for housing needed stocks. In some cases, we found that failure to dispose of excess stocks for extended periods of time has taken space critically needed. Also, we have found that failure to declare stocks excess had forestalled possible use of such stocks by other activities.

NET RETURN FROM EXCESS STOCKS, 2-2½ PERCENT

The CHAIRMAN. Mr. Campbell, as I understand it the cost of storage is not deducted from the gross revenue obtained from the sale of surplus. The Department of Defense publishes figures showing the gross income from the sale of excess stocks and then deducts from that the specific cost of selling the excess stocks, and as a result they get a figure that the net return is approximately 2 to 2.5 percent of the original cost. But this does not include the cost connected with storing this material during the period that it is in excess and before it is sold?

UNWARRANTED NEW CONSTRUCTION

Mr. CAMPBELL. Not where it is in Government warehouses. Of course, you must also keep in mind, or we must keep in mind that this use of space in being requires new construction for further storage.

WORLDWIDE STORAGE SPACE 585 MILLION SQUARE FEET

The CHAIRMAN. Our very able staff, Mr. Ward and Mr. Newman, have computed figures which are shown on the chart that the worldwide storage comes to 585 million square feet, of which 463 million square feet are in the United States, with a total of 34,920 buildings, and at a cost of \$1,636 million. These are staggering figures. What you are saying is that if greater effort had been made to reduce excess stocks, there would not only have been a saving on the stocks themselves, but great saving on storage space and construction costs which have run \$1.6 billion.

Mr. CAMPBELL. Yes, sir.

COST OF STORING ONE-HALF PERCENT PER ANNUM OF COST

The CHAIRMAN. I believe the Department of Defense estimates that the annual cost of storing materials is approximately one-half of 1 percent of the original acquisition cost. The space costs from \$3.50 to \$4 per square foot to build.

Mr. CAMPBELL. I think that is a reasonable figure.

The CHAIRMAN. So that in 4 years of storage they eat up any profit that they may ultimately get for selling the excess at 2 percent of its original cost. So it becomes a complete loss. In fact, it is more than a complete loss. It is more than a 100-percent loss. We are not dealing with small figures here. We are dealing with billions upon billions of dollars.

Go ahead, Mr. Campbell.

Uneconomical management of overhaul programs

Mr. CAMPBELL. We have found that the failure to repair reusable items of equipment promptly and that other variations in requirements determinations have generated requirements for larger quantities of these items than are necessary to fill the needs of the using activities.

Within the Navy aeronautical system, there are some 50,000 aircraft engines. Annual procurement of aircraft engines by the Navy involved hundreds of millions of dollars. Since engines on operating aircraft must be replaced after they reach a specified number of operating hours, spare engines must be on hand to use while others are being overhauled. The number of such engines for standby use is determined by a mathematical formula. One of the important factors in the formula is the length of time that the replaced engine remains out of service prior to reuse.

Our study of the physical movement of naval aircraft engines including (1) removal of unserviceable engines from the aircraft, (2) shipment to overhaul points, (3) overhaul processes, and (4) return of serviceable engines to actual service revealed a general lack of expeditious handling in almost every segment of the overhaul pipeline. A review of the physical movement of naval aircraft engines and comparison with the Department of the Air Force on similar engines suggested a reasonable pipeline time of 147 days as contrasted with the Navy's scheduled 210 days for computing requirements and current performance record of 275 days. Using the 147 day basis, we estimated that at July 31, 1958, 793 aircraft engines costing about \$68 million were being procured in excess of the Navy's requirements.

The CHAIRMAN. Naval aviation take notice.

Mr. CAMPBELL. While the Department of the Navy did not at first concur with our recommendation concerning the use of a 147-day pipeline factor, it later informed us that its calculation of aircraft engines for the 1960 procurement program will be based on a 150-day pipeline procedure utilizing mobilization or limited war factors.

Other matters affecting the economy and efficiency of the services' overhaul programs follow:

In our review of ship overhaul contracting activities, we found that contracts for ship overhaul work were awarded at excessively high prices, largely because (1) the industrial managers' cost estimating was unsound and not sufficiently accurate to provide an effective basis for evaluation of the reasonableness of contractors' price proposals and (2) sufficient consideration was not given to alternative methods of getting the work done when contractors' proposals appeared unreasonably high.

The CHAIRMAN. These are the drydocks along the coast?

Mr. CAMPBELL. Yes, sir.

Our recommendations for corrective action to improve procedures in these two areas have been concurred in by the Department of the Navy. Our review further disclosed that laxity of controls over supplemental work increased ship overhaul costs. We found that additional repair work authorized after the award of contracts totaled about \$16 million annually and that generally the prices negotiated for additional work were between 115 and 170 percent of competitive prices for similar work.

The CHAIRMAN. You mean the probable overcharge was from 15 to 70 percent on the total volume of work of \$16 million?

Mr. CAMPBELL. Yes; that is correct.

The CHAIRMAN. The Bureau of Ships and Docks take notice.

Mr. CAMPBELL. In many cases we found that competition for ship overhaul work was unnecessarily restricted by limiting the field of potential bidders to the few contractors who have adequate drydocking facilities to do the entire job of ship overhaul instead of using split-bidding techniques. Obtaining separate bids on drydocking and topside work could, in our opinion, lead to more reasonable prices by increasing competition for the topside work which is normally the major portion of the overhaul.

INEFFICIENCIES IN AIR FORCE CONTRACTING

At a Department of the Air Force offshore aircraft maintenance activity, maintenance of aircraft was contracted for almost exclusively under time and material contracts. In our review of this activity we found unsatisfactory control of Government furnished parts, failure to require the contractor to maintain an adequate accounting system, inefficient planning for repair parts, and a lack of a positive program for verifying direct labor charges under the time and material contracts.

Review of certain aircraft overhaul activities of the Department of the Navy revealed instances of questionable effectiveness in planning and scheduling of workload, production control, material control, and cost accumulation and reporting. There were also delays in removing engines from aircraft and shipping to overhaul points, presumably increasing out-of-service time of the engines and possibly grounding aircraft in the fleet because of a lack of engines.

COMBINING SUPPLY ACTIVITIES RESULTS IN ECONOMIES

We have made a number of recommendations which, if properly implemented, should result in more effective and more economical supply service and other support activities. The military departments have adopted many of our recommendations and are considering the adoption of others. One notable example was the combining of certain activities of the Submarine Supply Office, Philadelphia, Pa., with the Ships Parts Control Center, Mechanicsburg, Pa. Although the Navy did not follow all of our recommendations for combining, under one inventory manager, the responsibility for all spare parts support for Navy ships, a move which we estimated would result in an annual savings in operating costs of approximately \$1.1 million, it did effect significant economies contemplated in our recommendations. For example, the Submarine Supply Office has been moved to Government-owned quarters in the Navy Supply Center at Mechanicsburg, Pa., adjacent to the Ships Parts Control Center and the rented space in Philadelphia has been released. Automatic data processing already in use at the Ships Parts Control Center is now being used by both organizations and similar rented equipment in Philadelphia has been released. Further, through combining certain service operations, substantial savings in personnel spaces have been effected. We believe that, if the military services were to review their supply and service operations carefully and thoroughly, other consolidations might be made which would effect operating economies.

IMPLEMENTATION OF MCCORMACK AMENDMENT BELIEVED DESIRABLE

Although we have no specific legislative recommendation to make at this time, we believe that greater use of single agencies or other appropriate organizational entities to manage the procurement and delivery of items common to the needs of all military departments, as contemplated by the McCormack amendment of 1958 to the National Security Act, might alleviate some of the problems of interservice supply support mentioned earlier in this statement.

REVIEW OF ELECTRONICS SUPPLY INVENTORY

We are currently making a Defensewide review of the supply management of electronic supplies and equipment. The basic objective of this review is to ascertain if, within each service, electronic equipment, components, and spare parts required to accomplish designated military missions are being furnished (1) in required quantities and qualities, (2) at the places where and the times when needed, (3) without unnecessary duplication and overlapping of procurement, inventory, production, storage, and distribution practices, and (4) without duplication or overlapping of organizational elements. Particular emphasis is being placed on determining and evaluating the contribution to effective and economical supply management which could be made by single agencies or other appropriate organizational entities

in carrying out review activities involving electronic supplies and equipment which are common to more than one military department. We expect that our field work will be completed in March or April and that a report on this review will be submitted to the Congress as promptly as possible thereafter.

The CHAIRMAN. I want to thank you for that, and we will watch and wait for it.

THE MILITARY ASSISTANCE PROGRAM

Mr. CARMICHAEL. Under the military assistance program, authorized by the Mutual Security Act of 1951, as amended, the United States provides equipment, supplies, and services on a grant or reimbursable basis to other friendly nations and to international organizations. This assistance is provided to promote the foreign policy, security, and general welfare of the United States and to facilitate the effective participation of recipient nations in arrangements for individual and collective self defense.

SCOPE OF PROGRAM

Expenditures for the military assistance program for the fiscal years 1957, 1958, and 1959 were approximately \$2.4 billion, \$2.2 billion and \$2.4 billion, respectively. Expenditures for the fiscal year 1960 are estimated at \$1.8 billion, or 2.4 percent of the total Federal budget.

We have directed our reviews primarily to operations involving the programming, procurement, and delivery of material to recipient countries. These activities account for approximately 88 percent of the annual expenditures for the military assistance program. To a limited extent, we also examined the administration of aid given for military construction which accounts for an additional amount of approximately 3 percent of total annual expenditures for military assistance.

IMPROVEMENTS NOTED

Recognition should be given to the continuing efforts of Defense officials to improve their administration of the programs, and we are not unaware of the substantial problems involved in the administration of this program or of the fact that economic and political considerations in the recipient countries have a real effect on policies and decisions.

CONTROLS NEEDED

However, we believe much remains to be done to strengthen controls over program development and implementation in order to eliminate waste and to provide a sound basis for good program administration.

In general, the administration of the military assistance program can be divided into three stages—(1) program development, (2) pro-

gram implementation, including the procurement and delivery of programmed equipment, and (3) a continuing review of the utilization of delivered equipment and other phases of recipient country performance. While we do not propose at this time to relate details of the results of our reviews of the military assistance program, unless your committee should so desire, our findings and observations in these areas, stated in very general terms, follow:

1. The programming objectives established by the Department of Defense, expressed in terms of divisions of troops, squadrons of aircraft, etc., and other instructions do not provide all necessary guidelines to operating officials. The program objectives have not been sufficiently refined to establish which countries and which military units shall first receive equipment and supplies or to distinguish between those forces which are justifiable on the basis of military roles and missions and those which must be equipped and maintained because of political and other considerations.

2. Estimates have not been developed and presented to the Congress of the aggregate costs of equipping, maintaining, and modernizing allied military forces approved for support or otherwise achieving U.S. objectives in the countries being supported. Likewise program objectives have not been systematically analyzed and found to be within the limit of available resources and not excessive for the accomplishment of U.S. purposes before these objectives are accepted as the basis for military assistance.

3. Data of military equipment and supplies needed by recipient countries continue to be developed and used to support annual appropriation requests without sufficient knowledge, in many cases of (1) the real needs of the countries based on tables of organization and equipment established for their military units, (2) the equipment assets on hand, and (3) the countries' capabilities to utilize the material planned for delivery.

4. Stocks excess to the military service which should be transferred to the military assistance program without charge, stocks which should be transferred at reduced prices because of condition and market value, and other categories of military equipment have been transferred at prices which have resulted in overcharges to military assistance appropriations. Defense regulations, procedures, and controls have been ineffective in preventing unauthorized reimbursements to the military services. Consequently the military departments may be receiving reimbursement for materiel furnished to the military assistance program to a degree not contemplated by mutual security legislation.

5. In many countries, it has not been determined that funds provided by the United States to support the military budget of these countries have been utilized for the purposes for which they were given. At the time of our reviews, the International Cooperation Administration and the Department of Defense had not agreed on which

agency would be responsible or on the procedures to be followed for the review of the utilization of military budget support assistance. Subsequently, on October 19, 1959, a joint State-Defense-International Cooperation Administration statement was issued providing that the military assistance advisory groups will be responsible for observing and reviewing the countries' utilization of military budget support assistance.

RECOMMENDED IMPROVEMENTS

Appropriate recommendations have been made to the Department of Defense concerning the areas in which we felt that administration of the military assistance program could be improved. Some of our recommendations have been adopted and others are under consideration. We shall be glad to discuss the program more specifically should your committee so desire; however, such discussions may involve classified information.

CLASSIFIED REPORTS

The CHAIRMAN. Mr. Campbell, we read in the newspapers about the efforts of various House committees to obtain information about the military assistance programs in southeast Asia, and to have furnished to them copies of the reports which you made to the Department of Defense, the ICA and possibly the State Department, but the results have developed that the administration refused to submit those reports in the possession of these executive agencies to the Congress. Your General Accounting Office is the agent, not of the Executive, but of Congress, as I understand it. That is correct, is it not?

Mr. CAMPBELL. Yes, sir.

The CHAIRMAN. Does this last sentence mean that you as an agent of Congress would be willing to transmit under proper security arrangements these southeast Asian reports?

Mr. CAMPBELL. Mr. Chairman, our reports, although classified, do go to Congress. I think that the report or reports that you mentioned are reports prepared by ICA itself.

The CHAIRMAN. I see.

Mr. CAMPBELL. In this particular case I believe it was the Foreign Relations Committee which asked for the report, and we also have asked for it. I will say that as a result of our feeling that these reports should not be withheld from me and from my staff, we have accomplished some progress, because we have received a copy of the report referred to. It has apparently been edited, but with very few deletions.

GAO REPORTS ON MILITARY ASSISTANCE

The CHAIRMAN. Would you subsequent to this meeting identify for the record the numbers of these reports which you have rendered to Congress? You do not need to do it now. You can do it subsequently.

Mr. CAMPBELL. On military assistance or in total?

The CHAIRMAN. On military assistance.

Mr. CAMPBELL. I think we will have to submit it for the record, Mr. Chairman.

(The following was later received for the record:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, February 3, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Defense Procurement, Joint Economic Committee,
Congress of the United States.

DEAR MR. CHAIRMAN: In accordance with your request during the hearings of your subcommittee on January 28, 1960, we are furnishing a list of the General Accounting Office reports furnished to the Congress on reviews of the military assistance program:

Report No.	Date	Title of report	Security classification
B-125038	Nov. 13, 1950	"Profits to Foreign Governments under the Offshore Procurement Program in Europe."	Secret.
B-125048	June 14, 1957	"Procurement of 165 mm. Ammunition as a Complete Round, Ordnance Procurement Center, Sandhofen, Germany."	Do.
B-125310	Aug. 20, 1957	"Report on Examination of the Military Assistance Program, Department of Defense, Mar. 31, 1957."	Unclassified.
B-125084	Aug. 30, 1957	"Report on Review of the Military Assistance Program for the Federal Republic of Germany, Mar. 31, 1957."	Secret.
B-125085	.....do.....	"Report on Review of the Military Assistance Program for Turkey, Mar. 31, 1957."	Do.
B-125080	.....do.....	"Report on Review of the Military Assistance Program for Spain, Mar. 31, 1957."	Do.
B-125080	Aug. 30, 1957	"Report on Review of the Military Assistance Program for France, Mar. 31, 1957."	Do.
B-125088	.....do.....	"Report on Review of the Military Assistance Program, Redistribution of Programmed Excesses, December 1956."	Do.
B-125000	.....do.....	"Report on Review of the Military Assistance Program for Pakistan, Mar. 31, 1957."	Do.
B-125001	.....do.....	"Report on Review of the Military Assistance Program for Italy, Mar. 31, 1957."	Top secret.
B-125028	Sept. 12, 1957	"Use of Progress Payments in Offshore Procurement Contracts Awarded by the Ordnance Procurement Center, U.S. Army, Europe."	Unclassified.
B-125078	Sept. 18, 1957	"Procurement of Energia Grenades by Ordnance Center, U.S. Army, Europe."	Do.
B-132913	Oct. 3, 1957	"Report on Review of the Military Assistance Program for Japan, Mar. 31, 1957."	Secret.
B-125090	Oct. 4, 1957	"Report on Review of the Military Assistance Program for Korea, Mar. 31, 1957."	Do.
B-125007	Jan. 18, 1958	"Examination of the Military Assistance Program Administered by the Department of the Army."	Unclassified.
B-125087	Jan. 29, 1958	"Report on Review of the Military Assistance Program for Taiwan."	Secret.
B-132053	Feb. 10, 1958	"Report on Examination of Special Defense Financing Program for France, International Cooperation Administration, Department of State, June 30, 1957."	Unclassified.
B-125078	July 22, 1958	"Letter to Congress Transmitting Reply from Assistant Secretary of the Army on Energia Grenades."	Do.
B-133055	Sept. 8, 1958	"Report on Review of the Military Assistance Program for Greece."	Secret.
B-133086	Sept. 30, 1958	"Report on Review of the Military Assistance Program for Cambodia."	Do.
B-133080	Oct. 30, 1958	"Report on Review of the Military Assistance Program for Laos."	Do.
B-133090	Nov. 26, 1958	"Report on the Review of the Military Assistance Program for Vietnam."	Do.
B-133080	Dec. 3, 1958	"Report on Examination of the Program for Offshore Procurement in Japan of Fast-Moving Vehicular Spare Parts."	Confidential.
B-138134	Jan. 9, 1959	"Review of the Military Assistance Program for Iran."	Secret.
B-133005	Apr. 20, 1959	"Limited Review of Selected Offshore Procurement Contracts, Air Materiel Force, European Area, Fiscal Years 1954-56."	Unclassified.
B-133086	Aug. 26, 1959	"Review of Offshore Procurement of F-80K Aircraft by the U.S. Air Force under Contract No. AF (61)(514)-547."	Secret
B-133217	Dec. 18, 1959	"Denial by Department of Defense of Access to Military Assistance Program Data."	Unclassified.
B-133128	.....do.....	"Examination of the Military Assistance Program Administered by the Department of the Navy."	Do.
B-132913	Dec. 31, 1959	"Review of Supply Activities for the Military Assistance Program, U.S. Army Logistical Depot, Japan."	Do.
B-125000	Jan. 12, 1960	"Review of the Military Assistance Program for Pakistan".....	Secret.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

OTHER ACTIVITIES

There are several activities of the Department of Defense, aside from those mentioned above, in which we believe that the management can be significantly improved.

NEED FOR IMPROVEMENT IN ARMS

Our reviews of the Military Sea Transportation Service have disclosed room for improvement in the management of transportation activities. For example, lack of a firm air-sea transportation policy leads to poor utilization of troop space on vessels. Notwithstanding the fact that this matter has been before the Department of Defense for more than 3 years, we observed no improvement in the coordination of transportation facilities and thus excessive costs continued to mount.

We also found that failure to forecast Military Sea Transportation Service cargo space requirements accurately and to cancel reserved space promptly when changes of plans are known have resulted in unnecessary costs. In addition, certain rigid requirements relating to the use of refrigerator ships imposed by the shipper services have resulted in uneconomical operations. The Department of Defense has recognized the need for more economical planning of cargo shipment requirements and has agreed generally with our recommendations for corrective action. However, we have not had the opportunity to ascertain the extent of action taken or contemplated to implement our recommendations.

FAILURE TO NEGOTIATE WHERRY HOUSING CONTRACTS

In our review of the acquisition of Wherry housing by the Air Force, we found that, in the first 23 projects, vendors were offered the "formula price" which is the maximum price permitted by law. No attempt was made to negotiate, as required by law, a price lower than the maximum price. This practice was discontinued, however, in November 1957. Since that date price negotiations are conducted if the value of the property, determined by appraisal and otherwise, is found to be less than the formula price. We found, however, that generally the vendors were advised of the formula price prior to offer or negotiation of a purchase price. We recommended that the formula price be determined by the military departments as required by law without consultation or negotiations with the vendors on any elements of price to be included therein and without disclosure to the vendors. We found also that the formula price was frequently overstated by reason of inadequate deductions for repairs and replacements. The total of \$1.7 million deducted for this purpose for 33 projects under review may be between \$1.6 million and \$4 million less than the amounts spent or to be spent by the military departments for repairs and replacements. We have recommended corrective action in these areas.

The CHAIRMAN. Do you have any estimate as to the probable overcharge in these 23 Wherry housing projects?

Mr. CAMPBELL. Our report in this matter is B-133102, but we do not have an estimate of the overcharge.

Mr. Chairman, this concludes our summary of the more significant areas disclosed by our audits in which we believe that improved administration can have beneficial influence toward stabilizing our economy. It is not intended to leave the impression that the Department of Defense is not making a diligent effort to administer its programs effectively. Such a vast undertaking requires the combined efforts of the most capable officials of both the executive and the legislative branches of our Government.

NO PROPOSAL IN LEGISLATION

We have no proposals for legislation at this time, although your hearings may disclose a possible need for legislation. In such event, we shall be glad to assist your committee in any way possible. Our recommendations for improved regulations have been submitted from time to time to the Department of Defense along with our reports of audit. As indicated in our statement, not all of our recommendations have been adopted by the Department of Defense; however, we believe it only fair to state that there can be honest differences of opinion and that it is our belief that all of our recommendations have been given serious consideration. We shall be glad to discuss more specifically any of the points we have just covered on which you or members of your committee may desire additional information.

VOLUME OF GAO REPORTS

The CHAIRMAN. Thank you very much, Mr. Campbell. I am going to ask the members of the staff to take in their arms the reports which you have submitted on these matters and hold them up for public inspection, and then make an estimate as to their total weight. How much do you think those weigh, Mr. Ward?

Mr. WARD. About 20 pounds, I guess.

The CHAIRMAN. Twenty pounds of reports.

Mr. WARD. But their value is not in their weight.

GAO REPORTS ARE FAIR SAMPLE

The CHAIRMAN. I understand, though, they are weighty words. I would like to ask this, Mr. Campbell: To what degree do you think that these are fair samples of the work of the Defense Department, that is, did you pick out the lurid cases, or is this a pretty fair sample of the procurement and supply practices of the Department of Defense? In the nature of the case, you could only sample a relatively small number of the cases; isn't that true?

Mr. CAMPBELL. Mr. Chairman, our policy is to set up our programs on the basis of the money spent. In other words, we naturally give our greatest effort in areas where the expenditures are high, because we have a limited staff. I, therefore, would say that we would program an activity regardless of whether we had heard something on the outside that things are not going well, or that we had a report adversely on it. We would go into the matter regardless of whether the performance is reported to us to be good or bad.

For example, we had a report recently on one of the Government corporations which was a very favorable report; commended the organization for what they had done. So I don't think that these reports that you have before you represent only the bad situations. I think they represent a cross section of what we have found.

The CHAIRMAN. In other words, you think they are a pretty fair sample?

Mr. CAMPBELL. Yes.

COMPREHENSIVE STUDY OF ELECTRONICS UNDERWAY

The CHAIRMAN. Have you studied the supply system of the Signal Corps which a number of your reports indicated is relatively inefficient?

Mr. CAMPBELL. As I mentioned in my statement, we are engaged on this rather comprehensive examination of the electronic procurement and similar things.

The CHAIRMAN. You have not issued a report yet?

SIGNAL CORPS REPORTS MADE

Mr. CAMPBELL. Since this statement was prepared, Mr. Chairman, we have issued a report on the examination of the U.S. Army Signal Supply Center in Yokahama, and also the Signal Corps operations of the U.S. Army, Europe, Communications Zone. Both of those came out in January. Those are the two on the Signal Corps. Also the review of selected supply and related disposal procurement activities, 8th U.S. Army in Korea, includes references to the Signal Corps operations.

REPORT ON LEASED PRIVATE LINES

The CHAIRMAN. I hold in my hand a copy of your report on the management of leased private lines, telephone facilities, in the Department of Defense and selected civil agencies, which you issued under date of November 24, 1959. The code number is B-133201. I read from the second paragraph:

The Government has been incurring excessive costs amounting to possibly more than a million dollars annually in the leasing of private line telephone facilities. These excesses have been the result, first, of the erroneous application of certain rates, and second, inefficient administrative practices on the part of the Government departments and agencies. Because of the highly complex nature of the problems which would be involved in developing an accurate projection of the total effect of these uneconomical practices, we are not in a position to make a firm prediction as to the total amount of savings that could be accomplished by the corrective actions which we are recommending herein.

\$1 MILLION EXCESSIVE COST

You do say that the excessive costs amount to possibly more than a million dollars a year. You go on in the third paragraph to say:

Part of the excessive costs which have been and are being incurred could be attributed to the fact that A.T. & T. has not fully applied Tariff FCC No. 231, which is an effective discount for volume service to the eligible circuits of each Government department and agency. In our limited review we identified annual savings of approximately \$73,000 which have since been realized by the application of the lower rates available under this tariff. Also, in our opinion A.T. & T.

is required to apply Tariff FCC No. 231 retroactively to the date each group of circuits of each department and agency became eligible and to make refunds accordingly. A.T. & T. does not agree with our interpretation of this tariff.

What you are saying is that there has not been a full application of the quantity discount which has been ordered by the FCC under Tariff Rule No. 231; is that correct?

Mr. CAMPBELL. That is the basic point. May I say, Mr. Chairman, with respect to that report which was issued in November 1959, that the Department of Defense and the General Services Administration both moved in very rapidly on that for correction. The report, of course, was across the board.

The CHAIRMAN. I may say that we have noticed greater activity on the part of the Department of Defense in these matters, particularly after this committee announced that it was going to hold hearings on this subject, which it did last fall.

FEASIBILITY OF SINGLE MANAGER FOR ELECTRICAL SUPPLY

Have you studied the electrical supply items sufficiently to have an opinion as to whether or not a single manager of the electrical supply items is feasible for the entire Department of Defense? In other words, is a single-manager system one that is practical for electrical supply items?

Mr. CAMPBELL. Our fieldwork is in progress on that, Mr. Chairman. I would like to defer an opinion.

The CHAIRMAN. I understand that this category includes something like 900,000 individual items with a cost value running into hundreds of millions of dollars.

CONGRESSMAN McCORMACK RE SINGLE MANAGER FOR COMMUNICATIONS SERVICE

May I ask this question: Congressman McCormack in the House has raised the question as to why there should not be a single manager for all communications for the Department of Defense. I would like to ask you that question which Congressman McCormack has raised, with the further question: Would unified operations, in your opinion, require a unified communications system?

Mr. CAMPBELL. We have no opinion on that at this time, Mr. Chairman.

The CHAIRMAN. Are you conducting any study of the communications services, as such?

Mr. CAMPBELL. The only work we did was on the long-lease lines to which you referred a moment ago.

The CHAIRMAN. Would you care to make an estimate of the savings that might be made if we had an effective and efficient military supply system as was contemplated in the original O'Mahoney and subsequently in the McCormack-Curtis amendments?

Mr. CAMPBELL. I am sorry, Mr. Chairman, I don't think I can make an estimate of what could be saved.

The CHAIRMAN. Senator Javits has a statement he would like to make. We are very glad to have you here, Senator.

IMPACT OF DEFENSE PROCUREMENT METHODS ON STATE ECONOMIES

Senator JAVITS. Thank you very much, Mr. Chairman.

I will not detain you more than a minute, but I have looked forward to these hearings with considerable interest because of the condition in certain areas of my State and on general grounds as well.

I have noticed with great interest the statements which are made in your prepared testimony on the question of competition. I would like to address myself very briefly to that.

As today's hearings get under way on defense procurement methods, the utilization of competitive bidding and competitive negotiation by the Defense Department and the impact of these factors on the U.S. economy, I would like to point out the special interest these hearings have for the people of my State - incidentally, the largest in the United States.

We are giving much attention there to the steadily declining share of the U.S. defense dollar which is spent in the State and to the growing geographic concentration of prime defense contract awards.

To many of us in the East, the so-called missile gap has been translated into the defense order gap. Many New Yorkers apply this term to the steady loss of defense contracts in our State, while there has been a steady increase in prime defense missile contracts placed in other parts of the country, particularly with firms on the west coast.

INTENT OF EMPLOYMENT ACT OF 1946

The Employment Act of 1946, which authorized the Joint Economic Committee, set forth the clear responsibility of the Federal Government to—

use all practicable means consistent with its needs and obligations and other essential considerations of national policy * * * to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities * * * and to promote maximum employment, production and purchasing power.

In the context of that declaration of policy, there would appear to be several important avenues of inquiry to be pursued at these hearings. Of special importance is the inclusion of labor surplus areas and small businesses among those factors accorded preference by armed services procurement officials in awarding contracts under the existing defense set-aside program.

ARMED SERVICES COMPETITIVE PROCUREMENT ACT

It is my preliminary view that both of these factors deserve far more consideration than I believe they are receiving now. During the last session, every member of the New York State congressional delegation, including myself and Senator Keating, sponsored the Armed Services Competitive Procurement Act, which would give preference to labor surplus areas and small business under the present set-aside program.

It would also give a statutory basis to the policy of encouraging competitive bidding techniques in defense procurement and where national security requirements preclude their use to provide for com-

petitive negotiation to the maximum degree possible, involving two or more firms.

I am glad your testimony carries that as being the idea of your agency, as well, Mr. Campbell. When you look at those figures, you can appreciate why people like myself in a great State, and Senator Douglas, of the State of Illinois, would be very deeply interested.

With fiscal 1961 defense procurement expected to stay even with last year's figure—\$22.7 billion—it is obvious that defense procurement policies can virtually spell life or death for the economy of some communities. In New York, Buffalo and Schenectady are prime examples of two areas which must receive their fair share of defense business if they are to make a strong comeback from the recent recession.

LABOR SURPLUS AREA

Nevertheless, Buffalo, the biggest labor surplus area in the State, and one with many defense industries, has been steadily losing vitally needed defense business. This is not a unique situation. For example, during fiscal 1959, key industrial areas of the United States which had two-thirds of the Nation's unemployed received about one-third of the Defense Department's prime contracts. Nor is this a recent trend.

EIGHT MAJOR LABOR SUPPLY AREAS RECEIVE LESS THAN ONE-THIRD OF 1 PERCENT PRIME CONTRACTS

Eight major labor surplus areas located in Indiana, Massachusetts, New Jersey, North Carolina, Pennsylvania and Rhode Island—and so listed by the U.S. Department of Labor for the past 7 years—had by May 1959 2½ percent of the Nation's unemployed and yet they had received less than one-third of 1 percent of prime defense contracts awarded.

Compare that figure to the tens of millions of dollars which have been expended by Federal, State, and local governments in unemployment insurance, public assistance, and other forms of relief in these labor surplus areas along with the additional Federal and State taxes lost due to worker layoffs and the declining economic health of these communities.

The impact of defense procurement policies in communities like Buffalo and these others is so great that it is the responsibility of the Congress to establish defense procurement methods which will not interfere with defense objectives but which will see to it that procurement methods take into account our Nation's economic requirements.

DEACTIVATING DEFENSE INSTALLATION

In addition, inquiry can appropriately be made into the amount of prior consideration given by defense officials to the economic dislocation which so often results when defense installations and facilities are withdrawn from an area. Even a few hundred military personnel or civilian employees who are thus displaced can mean grievous economic consequences for the community involved.

Mr. Chairman, I am grateful to you for letting me read this statement. I would like to end it by saying this to you: We are constantly

up against the area of bruised feelings or hurt sensibilities when we speak of what I have just spoken about on the theory that we Senators, interested in our States for political reasons, are trying to divert defense dollars where they should not go.

JUDGMENT OF PROCUREMENT OFFICIALS ON NATIONAL ECONOMIC PICTURE

I would like to make my protest against that here and now. I think when a government spends money and can spend it equally well in Place A or Place B, this should not be left to the lonely judgment of a procurement official, but it should have brought to bear upon it all of the influences which are inherent in the national economic picture.

No one wants any advantages. No one wants the Government to procure in Place A, in my State or any other Senator's State, where it can produce in Place B better or procure better in Place B. But where conditions are the same and the Government has got to spend its money, we say spend it to the greatest economic effect. Do not pile it on where there is a hot fire burning just because it is a nice, convenient place for the procurement man to place his order.

I hope, Mr. Chairman, that because we are engaged only with the broadest kind of policy—we are not the Armed Services Committee or the Government Operations Committee—that we may exercise some helpful role in our whole procurement situation.

I am sure, Mr. Chairman, that you will not find the people of my State or any other State similarly affected lacking in patriotism. But there are a few things about this situation we do find it hard to understand.

The CHAIRMAN. Since the Senator from New York has mentioned the illustrations of Schenectady and Buffalo, I would like to put in the record another example, such as I receive from time to time, in this instance a letter dated January 25, 1960, from Denver Co., of Quincy, calling my attention to the Corps of Engineers contract 11184-NAGH-16-B-210, and so forth, and in the second paragraph it says:

Under the above-numbered contract, the Corps of Engineers in Chicago is negotiating for the procurement of 200 600-cubic-foot-per-minute diesel engines, each will carry a list price in excess of \$18,000.

So the total amount involved will be close to \$3.6 million or \$4 million.

The Corps has seen fit to limit the negotiation for these machines to two suppliers, although a total of seven reputable manufacturers, including our own company, are capable and interested in furnishing machinery of this type. It is our understanding that the justification for the limitation is through Public Law No. 413. It is our further understanding that this negotiation was initiated in the office of the Chief of Engineers, Procurement Division, Gravelly Point, D.C.

We do not believe the Government can avail itself of prices established by free competition if its agencies are going to continue to operate in the manner outlined in the foregoing. It is our hope that a protest of this nature will be of sufficient interest to you to conduct an investigation into the circumstances surrounding this negotiation and the limitation of bidders so that the national interests may be best served.

Very truly yours,

Vice President, Sales.

Mr. CAMPBELL. Is that a letter to you?

The CHAIRMAN. Yes.

Mr. CAMPBELL. That should come to us pretty promptly. That is the sort of thing we are concerned about.

The CHAIRMAN. I will have this printed in the record and give you a duplicate of this now.

Mr. CAMPBELL. Thank you. I didn't recognize the case.

The CHAIRMAN. Senator Sparkman?

Senator SPARKMAN. Mr. Chairman, I want to go back over a little of this. I join in the statement that Senator Javits made. Senator Javits, I noticed you included the great States of New York and Illinois. I wish you would include Alabama, also, because we have been on the declining side so far as Government procurement is concerned, as small as it may be.

Mr. Campbell, there are two or three things that I want to bring into the record. May I say, Mr. Chairman, that these pertain primarily to things that we have been concerned with in the Small Business Committee, of which both Senator Javits and I are members.

For instance, according to your table, \$23,800 million, or if we take the Army report—and we have been using another figure—\$22,744 million, but with some additional items that probably are omitted from that figure I see how the \$23.8 billion could be obtained, the thing that startles me is this:

Based on this \$22.744 billion in awards made by the United States in fiscal 1959, only \$3.89 billion, or 13.6 percent, were advertised on a competitive basis. I notice from the Defense report for fiscal year 1959, on tables 6 and 7, that a little more than one-half of the procurements are negotiated from one source. I do not mean one company, but I mean each individual contract negotiator would negotiate only with one company.

CONCENTRATION OF PROCUREMENT

It seems to me that is a matter of great concern to us in this study.

I am somewhat concerned, may I say, over the apparent concentration of Government procurement in the hands of a few companies under the present system of defense procurement. Referring again to the report issued by the Department of Defense for fiscal year 1959, it reflects that some 100 companies and their affiliates—the report shows that the net value of the military contracts awarded—got 73.8 percent of the approximately \$22.5 billion awarded—and 20 companies received more than half of the procurement dollar.

I am familiar with the reporting system of the major prime contractors and their subcontracting activities and from the information I have received it does not appear that the report sets forth a true picture of the subcontracting as it relates to small business concerns.

As a result of the unsatisfactory method of obtaining information on the subcontracting program, the Small Business Administration made a survey whereby recommendations have been made to improve the subcontracting program. The results of this new system of reporting are not reflected in this report, but I hope it may be in future reports.

There are some 331,000 manufacturers in the United States, according to the Department of Commerce, and it is just unbelievable that it would be necessary to give all of this business to 100 business firms.

Mr. Chairman, I think it may be of interest, unless this is already included in the staff report, to include—I think it may be well to put in the hearings—this report from the Defense Department showing awards to 100 companies and 129 subsidiary corporations, listed according to the net value of military prime contract awards.

TEN CONTRACTORS RECEIVE 37 PERCENT OF TOTAL CONTRACTS

The CHAIRMAN. I have just been informed that this is in the staff study. Further scrutiny indicates that 10 contractors had 37 percent of the awards.

Senator SPARKMAN. Yes. The lower down on the list you go, the more amazing it becomes.

May I go one step further and mention something else that has been a matter of very keen interest to the Small Business Committee, and I may say to the Small Business Administration.

In the field of research and development, the administration's budget calls for an expenditure of \$8,391 million. Eighty percent of this is spent by the Defense Department and the Atomic Energy Commission.

In the past, the large concerns have been getting approximately 97 percent of the research and development contracts from the Department of Defense, leaving only approximately 3 percent for small research firms.

CONTRACTORS GET COMMERCIAL RIGHTS FOR NEW ITEMS DEVELOPED

The Government also allows the research and development contractor to retain all commercial rights on the items developed, thereby creating a possible monopoly in the future on future new inventions. This means that the taxpayer has to pay twice for new items that are developed and placed on the market.

I do not ask for these questions to be answered, but I think they are questions that all of us might well consider.

First, should not more work be distributed to small research laboratories?

PATENT RIGHTS

Second, should not the Government retain the patent rights which could be used by all?

I may say, by the way, that the Space Agency Act provides that the Government retain all commercial rights. I think it is a question we might well consider.

The CHAIRMAN. I might ask the Senator from Alabama, in the research in the field of atomic energy, who retains the patent rights?

Senator SPARKMAN. I believe the Government does in the atomic energy and space.

The CHAIRMAN. But not in defense?

Senator SPARKMAN. Not in defense.

METHODS OF PROCUREMENT—COMPETITIVE, NEGOTIATED, ETC.

The CHAIRMAN. There is one final piece of evidence that the Senator from Illinois would like to introduce which is drawn from page 38 of the report of the Attorney General on procurement for defense dated November 9, 1959.

That gives the percentage of military procurement classified by the method of procurement. That is, formally competitive, formally advertised, and negotiated. I think it is only fair to say that there was an improvement in 1954 over the record of the preceding years. But since 1954, although the Department of Defense has been subjected to criticism by Congress for having such a large percentage of its contracts negotiated and so small a percentage subject to competitive bidding, the actual percentage of formally advertised bids, instead of increasing, has diminished.

For instance, in 1954, 15.6 percent of total net value was given in the form of formally advertised bids, and in 1955, 16.0; 1956, 15.9; 1957, 17.4. But notice the last 2 years. 1958, 14.3; and 1959, 13.6.

So on the surface of the case, the Defense Department in the last 2 years has been making a poorer record. That is also in the staff report.

41 PERCENT COST REIMBURSEMENT CONTRACTS

There is another fact that needs to be brought out on the type of contract pricing. In 1951, 87 percent were in terms of fixed prices. In 1959 this has gone down to 59 percent. On the other hand, cost reimbursement, which presents the possibility of over-estimating the cost originally and then getting an additional slice when the actual costs are less than the estimated costs, have up from 12.7 percent of the contracts in 1951 to 40.9, or virtually 41 percent in 1959.

This also is taken from the report of the Attorney General. I have no more questions.

Senator JAVITS. I have no more questions, Mr. Chairman.

MACHINE TOOLS

Senator SPARKMAN. Mr. Chairman, I would like to mention just one other thing. Mr. Campbell said something in his statement about the cost of storing or of various storage charges. However, he did not mention the ownership of the Government and the retention by the Government and continued procurement by the Government of machine tools.

I do not believe you mentioned that, did you, Mr. Campbell?

Mr. CAMPBELL. No.

Senator SPARKMAN. I have a very brief statement I would like to give on that. This is another problem that the Small Business Committee has been concerned about.

The Government owns machine tools which are in use in Government and private industrial facilities, or held in storage estimated at 300,000 units, with an estimated acquisition cost of \$3,200 million.

About one-half of these tools are over 12 years old and little is done either to modernize or to replace them. Many of these tools are being

used in direct competition with small firms who own their own equipment.

As of January 1, 1960, in addition to the machine tools in the hands of the armed services, there were 4,000 tools with an acquisition cost of \$40,394,736 that were being stored by General Services Administration in the National Industrial Equipment Service. These tools are kept at Burlington, N.J., Government warehouses in Georgia, Utah, and Dixon, Ill., at a cost of \$800,000 a year.

25,000 TOOLS REQUESTED BY SCHOOLS

Twenty-five thousand machine tools owned by the Government are being operated by schools in the educational programs in the Property and Administrative Services Act of 1949.

It seems to me that this presents a question that we likewise might consider.

The CHAIRMAN. If there are no further questions, we want to thank you again and thank the members of your staff, Mr. Powers, Mr. Bailey, and Mr. Welch, and again express our deep appreciation of your services.

Thank you very much.

Mr. CAMPBELL. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is Mr. Franklin Floete, who is the head of the General Services Administration.

In many ways Mr. Floete has one of the most difficult jobs in the executive branch. His agency is not at Cabinet level and yet must secure efficiency in the Government management and related activities throughout the Government.

Mr. Floete, will you come forward?

STATEMENT OF FRANKLIN FLOETE, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. FLOETE. Yes, Mr. Chairman.

The CHAIRMAN. We had hearings about a year ago and we touched on certain phases of Government supply management, particularly on the surplus property disposal issue. I indicated in my letter to you the subject matter which would be under discussion today. You have a prepared statement. I believe it would be preferable to file it with the committee for publication and to paraphrase it briefly because we will wish to ask you some questions.

Would that be agreeable to you?

Mr. FLOETE. Yes, sir; it will.

(The statement referred to follows:)

STATEMENT OF FRANKLIN FLOETE, ADMINISTRATOR OF GENERAL SERVICES

Mr. Chairman and members of the committee, we believe that your committee will be concerned primarily with the operations of four segments of the General Services Administration—the Federal Supply Service, the Public Buildings Service, the Transportation and Public Utilities Service, and the Defense Materials Service.

The Federal Supply Service provides a centralized procurement system for common-use items. Our sources of supply are industrywide. We deal with large corporations, small business firms, distributors, wholesalers, and jobbers. Although our buying programs are of substantial importance, they represent

only a small part of the total dollar volume of supplies purchased by Federal agencies. Each agency still is responsible for buying items peculiar to its own needs. In fiscal year 1959, Federal agencies spent \$30 billion for supplies and equipment. FSS contracted for the purchase of \$833 million—less than 3 percent of the total.

The reason for this comparatively small percentage is that the bulk of the Federal budget for supplies and equipment is expended for capital equipment and items peculiar to agency requirements (particularly DOD), which are not appropriate for supply support by GSA. In addition, certain agencies such as DOD, AEC, and CIA are largely or wholly exempted from the procurement provisions of the Federal Property and Administrative Services Act from which GSA derives its responsibilities and authorities, and others, such as the Department of Agriculture, TVA, and FFA, are partially exempted.

However, the scope of our procurement activities is much more substantial when compared to Federal expenditures for general administrative items only, approximating 22 percent of the total including procurement by the military, and about 38 percent if confined to civilian agencies. Our procurement load is growing, however. While we contracted for \$546 million worth of supplies in fiscal year 1955, our 1959 figure was \$833 million, and the projection for 1961 is in excess of \$1 billion.

We provide supplies and services for other agencies under three programs:

(1) The Federal supply schedule program is designed to provide Federal agencies with commercial sources of supply for a wide range of common-use supplies and services. Some 50,000 items are involved in this program, as well as many additional items of parts and accessories for motor equipment, office machines, etc. Using agencies place orders against these contracts as their requirements develop, and make payment direct to the contractor, thereby saving a great deal of administrative time and the expense of making individual contracts. During fiscal year 1959, 5,747 schedule contracts were awarded. During this same period using agencies purchased \$511.7 million worth of supplies under these contracts.

Federal supply schedule contracts are open end contracts for specific periods of time, usually 6 months or 1 year, specifying price, terms, and conditions, but not quantities. Minimum and maximum order limitations are specified to permit local purchase of small requirements and enable separate purchase of abnormally large requirements to realize price advantages inherent in bulk procurement. Tires and tubes, electric lamps, office machines, drugs, gasoline, and photographic equipment are illustrative of the type of commodities covered.

The following contracting methods are used in connection with the Federal supply schedule program.

(a) *Multiple awards.*—A number of similar items produced by several different manufacturers are contracted for by the means of competitive negotiation—such contracts are known as multiple-award contracts, and are listed in supply schedules. Because of the many expensive items involved, such as the entire electronic data processing field and office machines, this type of contract covered approximately 80 percent of the dollar volume under this program during fiscal year 1959.

Multiple-award contracts are utilized for the purpose of making available to the Government the distribution facilities of the industry, and to enable selection of the equipment best suited to perform the particular requirement involved. Such contracts are negotiated with all qualified industry components desiring to be included in the program. Multiple-award schedules are used extensively by both military and civilian agencies and have proven to be the best administrative method of buying the types of items and quantities involved.

(b) *Single negotiated contracts.*—Single supply schedule contracts for proprietary items, items complex in design, or items subject to rapid technological change, are contracted for by negotiation with an individual producer or distributor.

(c) *Formal advertising.*—Supply schedule items covered by specifications or adequate purchase description and produced under competitive conditions are contracted for by means of formal advertising.

(2) Our second major program is the stores program. We have stores depots in each of our 10 regions, which stock and distribute some 9,000 common-use items which have a rapid turnover. During fiscal year 1959, this program accounted for \$167.4 million in sales. Our depot inventories were valued at \$51.6 million on June 30, 1959.

As a general rule, contracts for stores stock replenishment are made through formal advertising procedures. The open end or term contracting method is also used in purchasing certain items for stores stock replenishment. Contract periods are usually for 6 months or 1 year. These contracts also have minimum and maximum order limitations. Use of this contracting method provides ready availability from established sources of supply and produces advantages in terms of short leadtime, price, and uniform quality. Office furniture, office supplies, paper products, handtools, textiles, paint, and packaging materials are illustrative of the types of items carried in stores stock.

(3) The third program is the consolidated direct delivery procurement program covering items such as automobiles and refrigerators. Under this program agency requirements are periodically consolidated for contracting purposes, and the items are purchased for direct delivery to the point of use. We also buy for agencies upon specific request or under special arrangements. For example, we buy for Alaskan agencies under the Department of Interior, and purchase radiological supplies for OCIDM. During fiscal year 1959, we bought \$123.6 million worth of supplies under these consolidated and individual direct delivery programs. In addition we purchased about \$30.5 million in supplies for the overseas missions of the International Cooperation Administration. Generally speaking, formal advertising procedures are followed in making purchases under our direct delivery programs.

In fiscal year 1959, 83 percent of our contracts for stock replenishment and direct delivery were accomplished under formal advertising procedures, and only 17 percent by negotiation. The latter figure includes transactions such as open-market purchases under \$2,500, proprietary items, exigency purchases, cases where bid prices after advertising are not reasonable, small business set-asides and labor surpluses area set-asides. In addition, it is also necessary to negotiate certain purchases for ICA where bids are invited on a worldwide basis.

In addition to these procurement programs, we provide governmentwide guidance and direction in such fields as product standardization, cataloging, and inspection and testing.

Product standardization is achieved through issuance of specifications and standards. Federal Specifications are technical publications which state the construction and performance characteristics and test methods for specific groups of commodities. They provide the means for obtaining proper quality in procurement, and determining whether the suppliers' offerings meet the necessary user requirements. Federal Standards are documents which limit the range of variations of given commodities for supply purposes by restricting procurement in terms of stock numbers to the fewest essential variations acceptable. They are designed to establish the specific type product best suited to the Government's needs and achieve the highest practicable degree of uniformity. By adopting such standards, the number of different types, sizes, colors, and varieties are reduced, thereby decreasing capital investment in inventories and storage space requirements. We have developed and issued 4,000 Federal Specifications, and 145 Federal Standards as of the close of fiscal year 1959.

The Federal Catalog System has as its objective the establishment of a single identification for each item of supply in the Federal Government. This provides common supply language in dealing with industry and within Government. GSA is responsible for cataloging all items used by civilian agencies. By the end of last fiscal year we have covered 192,000 items of the ultimate goal of approximately 700,000 items.

Inspection and testing, or quality control, is the safeguard to assure that products bought have been made in accordance with the applicable specification and will satisfy the intended use. Through various techniques we make sure that everything we buy has been properly inspected, either at the manufacturer's plant or point of delivery. We, ourselves, inspected commodities valued at over \$279 million in fiscal year 1959, by performing over 147,000 inspections at contractors' plants, and conducting over 14,000 tests. The balance of the volume procured was bought under the Federal Supply Schedules or by direct delivery, with inspection responsibility in such cases resting with the ordering agency.

Our motor equipment program produces substantial economies through a nationwide system of interagency motor pools, and provides guidance in the proper care and safety of Government-owned vehicles. By the end of last fiscal year we had established 44 motor pools containing over 13,200 vehicles valued at about \$15 million. This is 3,080 fewer vehicles than the separate agencies would require for the 130 million miles traveled during fiscal year 1959. These

pools reduced cost per mile of operation by 3½ cents, from 10.9 cents prior to pooling to 7.4 cents currently.

Federal Supply Service provides Government-wide leadership and guidance in the establishment and publication of uniform purchasing and contracting policies, methods, and procedures. It also promotes the unification of the supply operations of all Federal agencies and their integration into the Federal Supply System.

In this activity we have in Federal Supply Service an Office of Procurement Policy. This office is responsible for the planning, development, and coordination of comprehensive contracting and purchasing policies and procedures for Government-wide utilization in supply and construction activities. Such policies and procedures are published by GSA in the Federal Procurement Regulations, which are mandatory upon all civil agencies of the Government, and, in most cases, permissive insofar as DOD is concerned.

Our procurement policy program is the result of 3 years of study and review by the interagency task force for the review of Government procurement policies and procedures created in 1956 as a result of recommendation 5 of the Cabinet Committee on Small Business, which pointed up the need for a permanent program in this field. Assisting the Office of Procurement Policy in this work is a newly constituted Interagency Procurement Policy Committee. This Committee consists of representatives of five major procurement agencies (DOD, SBA, AEC, Agriculture, and GSA). In addition, all other principal procurement agencies have appointed liaison officers to work with the Committee and with GSA in the further development of this program.

GSA also provides leadership and guidance in the unification of the supply operations of all Federal agencies through the preparation and issuance of appropriate regulations, circulars, handbooks, and guides. Also GSA resident specialists are maintained in major supply agencies to provide assistance with respect to improved management practices and to better coordinate agency supply programs with the Government-wide Federal Supply System.

In conformity with the declared intent of the Congress, we provide small business with a fair share of GSA procurement. In fiscal year 1959, 58.1 percent of the value of our purchases was placed with small business firms—substantially more than the 49.9 percent placed with such firms in fiscal year 1958. We have established offices so that businesses, small and large, can obtain the latest information about Government requirements. We have also established procurement procedures designed to increase participation by small business in Government contracts, and continually provide information to the Department of Commerce concerning proposed GSA procurements for dissemination to private industry.

We are presently collaborating with the Department of Defense in their examination of a broad range of general supply items, aimed at determining—

- (1) which items should be retained under individual military departmental control,
- (2) which should be placed under a Department of Defense single manager for consolidated procurement, and
- (3) which items should be decontrolled for interservice purchase or from GSA, or commercial sources.

We expect increased volume of business from the military services in the future as a result. I am sure that you will hear more of this plan from the DOD representatives appearing at this hearing.

We currently furnish major support to the military by specific agreement, in procuring office furniture, office machines and office supplies including paper and paper products, and also purchase of substantial amounts of household furniture and general-purpose items such as hand tools. In fiscal year 1959, approximately 62 percent of our purchasing was for DOD.

Another major GSA responsibility is in the area of excess and surplus personal property.

We achieve increased utilization by screening usable excess property, and by offering it to the Federal agencies. If no Federal agencies have use for the property, it is available for donation to the States for purposes of education, public health, and civil defense. If not donated, the property is then sold. In fiscal year 1959, about \$141 million worth of excess (at original acquisition cost) was transferred to other Federal agencies, and about \$361 million was donated to the States.

In fiscal year 1959, we started a program designed to increase the use of such property by the Federal Government and the States. Screening coverage has been extended, procedures simplified, and processing time reduced. The latter action alone will save substantial costs for storage, management, and maintenance of excess property. By working through a nationwide, interagency organization, several hundred strong, we hope to increase Federal utilization to \$305 million and donations to \$550 million in 1961.

If personal property cannot be utilized by the Government or donated, it is sold to the public by GSA or various other Federal agencies, principally the Department of Defense, operating under authority delegated by the General Services Administration and pursuant to its regulations.

In fiscal year 1959, usable property located in the United States, its territories, and possessions, originally costing \$2.4 billion was sold by the Federal Government, with a return of \$99.6 million or approximately 5 percent of acquisition value. While the percentage of return may seem low, it should be understood that much of the material sold was worn out, obsolete, or designed for specialized military purposes. During the same year an additional \$66 million was realized from the sale of scrap.

The Department of Commerce acts in an advisory capacity to GSA and DOD in order to avoid adverse economic impact. This impact is negligible on a national scale, largely because points of sale are so widely scattered.

We recently presented comments to the Congress regarding several bills which amend the FPAS Act to permit the donation of foreign excess property for certain educational and public health purposes. In these comments we recognize that the disposal of this property is involved with the foreign policy of the Government of the United States, with respect to which matter GSA is not in the position to furnish information. Based on stateside experience, however this agency made certain suggestions in respect to the organizational and procedural aspects of such a program. It is our belief that one Government agency, preferably one already having extensive overseas operations, should be responsible for actual administration of any donation program. Coordination is needed to determine the eligibility of donee institutions, to insure equitable allocations, to enforce compliance and safeguard proper use, and to assure that the requirements of Federal agencies for equipment and supplies in foreign countries are satisfied to the extent possible through the use of available excess property.

In the Public Buildings Service area, we believe this committee is primarily interested in the real property utilization and disposal program.

However, PBS in the management of real property also administers programs for the space planning, acquisition, repair, and maintenance of such property. Acquisition of real property is accomplished through new construction, rental, and direct purchase.

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In addition, other executive agencies dispose of certain types of property under their control subject to GSA regulations. During fiscal year 1959 these disposals, which are primarily of nonindustrial leaseholds and improvements on Government-owned land, involved property having an acquisition cost of \$122 million.

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Conveyance for public purposes amounted to \$24.8 million in acquisition cost during the year ending June 30, 1959. This amount was divided as follows: Assignments to the Secretary of Health, Education, and Welfare, \$12.3 million; airports, \$9.8 million; parks, recreational areas, and historic monument sites, \$2.5 million; wildlife conservation, \$100,000; and for Federal-aid or other highway use, \$100,000.

Real property may also be conveyed to a State, its political subdivisions or to tax-supported institutions by negotiated sale for public use other than for the purposes just cited, if the estimated fair market value of the property and other terms are satisfactory. Explanatory statements of the circumstances of each such disposal having a fair market value in excess of \$1,000 are provided to the appropriate committees of the Congress.

If surplus real property is not conveyed for public purposes, we dispose of it by sale as expeditiously as possible in order to cut management costs, return cash to the Treasury, and to get it back on the tax rolls without undue delay. Except in certain limited situations, such disposals are on a competitive bid basis; that is, either by sealed bid or by auction using the services of experienced auctioneers. In each method, sufficient advertising is given properties to stimulate public interest and thus to secure for the Government the benefits which normally flow from competitive bidding.

Public auctions are emphasized in order to generate increased public interest or to afford interested former owners or tax-supported institutions an opportunity to bid on specific marketable units. The efforts of auctioneers have been satisfactory in securing a fair return to the Government for the properties offered.

In some cases, when, for example, bid prices after advertising are not reasonable, or the bidding appears collusive, we may sell property by negotiation. We may also negotiate a sale when the character or condition of the property or unusual circumstances make it impracticable to advertise for competitive bids. Here, too, the circumstances of a negotiated disposal with a fair market value in excess of \$1,000 are reported to the appropriate committees of the Congress.

During fiscal year 1959 explanatory statements of the circumstances of 44 proposed negotiated disposals were submitted to the House and Senate Government Operations Committees. Of this number, the House committee objected to two proposed sales. Subsequently, one sale was renegotiated and a higher sales price was obtained. In the other case the proposed sale was not closed. The Senate committee expressed no objections to any of the proposed disposals.

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During fiscal year 1959, 339 properties were sold for cash or on credit for \$31 million. The sales return represented 113 percent of the appraised fair market value. In the first 5½ months of fiscal year 1960, we sold 144 properties for \$26,695,000. In addition, the cost to the Government for management of surplus property was reduced through outleasing certain properties pending ultimate disposal by sale. In fiscal year 1959 such rental income amounted to \$3.4 million.

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Our Transportation and Public Utilities Service, as the name implies, is responsible for programs which provide transportation and public utilities services for civilian agencies and for the military services at their request.

In this respect, we assist the civilian agencies in meeting their traffic management needs and arrange for the timely and orderly traffic movement of supplies

and materials. In fiscal year 1959, GSA routed nearly 7.5 million tons of freight, an increase of about 7 percent over the previous year.

In fiscal year 1958, we effected total reductions in transportation charges of \$12.1 million, and in fiscal year 1959 this total was increased to nearly \$16.7 million. In fiscal year 1958, \$0.7 million of the reductions in charges were relieved on GSA shipments, while the balance reported involved movements handled for the remaining civilian agencies. In fiscal year 1959, the GSA portion of these reduced charges totaled \$5.6 million. These reductions in charges are a beneficial result of our statutory responsibility to negotiate with carriers for such transportation services. This statutory duty embraces also our representative role in participating as shippers in Federal and State regulatory proceedings.

We have recently completed a survey of the transportation functions and freight traffic needs of the civilian agencies. Seventy-three representative headquarters and field installations were visited, resulting in 100 recommendations which we believe will materially improve agency traffic programs. Ninety-five percent of our recommendations have already been approved and are being implemented.

This fiscal year we are beginning an on-site transportation assistance program. Our staff will work directly with agency personnel in developing, installing, and applying sound traffic management policies and procedures. Agencies will also be assisted in identifying problem areas and in making improvements.

We are also preparing a transportation policy manual for the use of the agencies in guiding them in internal traffic management. In cooperation with the General Accounting Office, we have also issued technical publications, such as, "Common Shipping Faults and Their Remedies," and analysis of shipping problems, and "How to Prepare and Process U.S. Government Bills of Lading," designed to instruct traffic personnel in their issuance. The latter was designed to meet the recently revised Government bill of lading form developed by the General Accounting Office.

Every building which houses a Federal activity--large or small--is a user of utility services, and most of these services ordinarily must be obtained at published normal tariff rates. Therefore, our public utility program has concentrated on the areas of largest potential savings. Here again we participate in selected regulatory rate proceedings before the appropriate Federal and State regulatory bodies to try to get the lowest reasonable rate for the Government.

A significant example is our participation in Federal Communications Commission hearings, which resulted in a 15 percent cut in private line telephone rates. The services involved were closely related to the SAGE program of the Air Force, but other important Government usage was also affected. Annual savings from the action have been estimated at \$15 million. A major portion of this reduction will apply over a 10-year period, thus providing even more substantial savings.

A recent General Accounting Office report on leased private lines recommended another program which is now under way. Our effort, in cooperation with the Department of Defense, will be to combine or consolidate the interests of all Government agencies, and study the feasibility of treating the entire Government as a single customer of the communication services. This should result in discounts not now available and should substantially cut costs for this type of service.

The Defense Materials Service administers the national stockpile of strategic and critical materials and other defense materials programs. The Office of Civil and Defense Mobilization determines policies governing these programs, including setting stockpile objectives. Most current stockpile objectives and other program goals have been met. New contracting, therefore, is limited to a few materials and to upgrading certain materials in the stockpile to higher use forms.

Substantial deliveries, of course, are still being made under existing contracts, about \$200 million worth of materials in this fiscal year. To reduce the Government's contract obligations for materials no longer essential for defense requirements, we have since July 1957, reduced or canceled by mutual agreement contracts for approximately \$340 million.

It is our basic policy to procure materials and services on a competitive basis. There are exceptions to a sealed bid procedure induced by special conditions. Examples would be the procurement of jewel bearings where a single Government-owned plant is the source of supply, or the upgrading of materials presently in the stockpile where public disclosure of several origin points would breach

security regulations. Even in these cases where negotiations are resorted to, it is on a competitive basis.

Cost-plus-fixed-fee contracts are limited to a few special activities such as synthetic mica research, operation of the Government-owned jewel bearing facility and three mica processing plants. All such contracts involve either research and development work or the use of Government-owned equipment, and it would not be practicable to contract on any other basis. All cost-plus contracts are nullified at least once a year, and GSA continuously keeps a careful watch over progress under such contracts through inspection trips to the plants and periodic reports.

Our biggest problem today is the maintenance and management of the stockpile materials in such a way that they will be available for immediate use in an emergency. Last June these inventories amounted to 38 million tons of some 100 materials acquired at a cost of about \$8.3 billion.

The materials are stored at 217 locations, of which 18 are GSA depots, 62 military depots, 7 other Government-owned sites, and 130 commercial facilities or industrial plant sites. We reimburse the military services for storage at their sites, and our relations with them are on the most cooperative basis.

We are presently winding up a physical inventory of the materials at the military, GSA, and commercial facilities. This program was initiated in fiscal year 1957 and is scheduled for completion by June 30, 1960.

What do we do with materials no longer needed for defense requirements? In the past 18 months we have screened the materials in our inventories in order to recommend to OCDM possible disposals. During this period OCDM has authorized the disposal of specific quantities of more than 50 lots in the stockpile or Defense Production Act inventories. These lots of materials which are either subspecification or nonspecification materials were primarily acquired through surplus transfers from other Government agencies.

Stockpile disposals must have the expressed or implied approval of the Congress and cannot be made until 6 months after the proposed disposal plan is published in the Federal Register and submitted to the Congress. The Congress must expressly approve disposals made for any reason other than obsolescence. Disposals requiring express approval are now pending for extra-long staple cotton and natural rubber.

Our last Appropriation Act (Public Law 86-255) provides that replacement is not mandatory when stockpile materials in excess of objectives are sold under the rotation program to prevent deterioration.

Sales under the Defense Production Act cannot be made at less than current market prices. We notify the Joint Committee on Defense Production of proposed sales from such inventories.

Disposals must not cause serious market disruptions. To prevent this, we consult with interested Government departments and, when desirable, with industry advisory committees. Before a sale, a careful market appraisal is made to ascertain realistic prices and possible market impact. Our sales of any material are, of course, limited to a prudent and reasonable percentage of total annual consumption. Sales are on a competitive basis, and in all cases the Government retains the right to reject any or all bids considered unacceptable. In the case of rubber and fiber, sales are made at prevailing market prices which fluctuate during the course of any given day and are subject to allowances for quality and condition. Adequate advance notice of proposed sales is given to the trade.

I appreciate the opportunity of discussing with you some of the programs of the General Services Administration, and I will try to answer any questions you may have.

Mr. FLOETE. Mr. Chairman and members of the committee, we believe that your committee will be concerned primarily with the operations of four segments of the General Services Administration—the Federal Supply Service, the Public Buildings Service, the Transportation and Public Utilities Service, and the Defense Materials Service.

FEDERAL SUPPLY SERVICE

The Federal Supply Service provides a centralized procurement system for common-use items. Our sources of supply are industry-wide. We deal with large corporations, small business firms, dis-

tributors, wholesalers and jobbers. Although our buying programs are of substantial importance, they represent only a small part of the total dollar volume of supplies purchased by Federal agencies.

GSA ACCOUNTS FOR 3 PERCENT OF GOVERNMENT PROCUREMENT

Each agency still is responsible for buying items peculiar to its own needs. In fiscal year 1959, Federal agencies spent \$30 billion for supplies and equipment. FSS contracted for the purchase of \$833 million—less than 3 percent of the total.

The reason for this comparatively small percentage is that the bulk of the Federal budget for supplies and equipment is expended for capital equipment and items peculiar to agency requirements—particularly DOD—which are not appropriate for supply support by GSA.

In addition, certain agencies such as DOD, AEC and CIA may exempt themselves largely or wholly from the procurement provisions of the Federal Property and Administrative Services Act from which GSA derives its responsibilities and authorities, and others, such as the Department of Agriculture, TVA and FAA, may also exempt themselves partially.

However, the scope of our procurement activities is much more substantial when compared to Federal expenditures for general administrative items only, approximating 22 percent of the total, including procurement by the military, and about 38 percent if confined to civilian agencies.

Our procurement load is growing, however. While we contracted for \$546 million worth of supplies in fiscal year 1955, our 1959 figure was \$833 million, and the projection for 1961 is in excess of a billion dollars.

SUPPORT PROGRAMS

We provide supplies and services for other agencies under three programs:

(1) The Federal supply schedule program is designed to provide Federal agencies with commercial sources of supply for a wide range of common-use supplies and services. Some 50,000 items are involved in this program, as well as many additional items of parts and accessories for motor equipment, office machines, et cetera.

Using agencies place orders against these contracts as their requirements develop, and make payment direct to the contractor, thereby saving a great deal of administrative time and the expense of making individual contracts. During fiscal year 1959, 5,747 schedule contracts were awarded. During this same period, using agencies purchased \$511.7 million worth of supplies under these contracts.

Federal supply schedule contracts are open end contracts for specific periods of time, usually 6 months or 1 year, specifying price, terms and conditions, but not quantities. Minimum and maximum order limitations are specified to permit local purchase of small requirements and enable separate purchase of abnormally large requirements to realize price advantages inherent in bulk procurement. Tires and tubes, electric lamps, office machines, drugs, gasoline, and photographic equipment are illustrative of the type of commodities covered.

The following contracting methods are used in connection with the Federal supply schedule program:

(a) Multiple awards: A number of similar items produced by several different manufacturers are contracted for by the means of competitive negotiation—such contracts are known as multiple-award contracts, and are listed in supply schedules.

Because of the many expensive items involved, such as the entire electronic data processing field and office machines, this type of contract covered approximately 80 percent of the dollar volume under this program during fiscal year 1959.

Multiple-award contracts are utilized for the purpose of making available to the Government the distribution facilities of the industry, and to enable selection of the equipment best suited to perform the particular requirement involved.

Such contracts are negotiated with all qualified industry components desiring to be included in the program. Multiple award schedules are used extensively by both military and civilian agencies and have proven to be the best administrative method of buying the types of items and quantities involved.

(b) Single negotiated contracts: Single supply schedule contracts for proprietary items, items complex in design, or items subject to rapid technological change, are contracted for by negotiation with an individual producer or distributor.

(c) Formal advertising: Supply schedule items covered by specifications or adequate purchase description and produced under competitive conditions are contracted for by means of formal advertising.

(2) Our second major program is the stores program. We have stores depots in each of our 10 regions, which stock and distribute some 9,000 common-use items which have a rapid turnover. During fiscal year 1959, this program accounted for \$167.4 million in sales. Our depot inventories were valued at \$51.6 million on June 30, 1959.

As a general rule, contracts for stores stock replenishment are made through formal advertising procedures. The open end or term contracting method is also used in purchasing certain items for stores stock replenishment. Contract periods are usually for 6 months or 1 year. These contracts also have minimum and maximum order limitations. Use of this contracting method provides ready availability from established sources of supply and produces advantages in terms of short lead time, price, and uniform quality. Office furniture, office supplies, paper products, handtools, textiles, paint, and packaging materials are illustrative of the types of items carried in stores stock.

(3) The third program is the consolidated direct delivery procurement program covering items such as automobiles and refrigerators. Under this program agency requirements are periodically consolidated for contracting purposes, and the items are purchased for direct delivery to the point of use. We also buy for agencies upon specific request or under special arrangements.

For example, we buy for Alaskan agencies under the Department of Interior, and purchase radiological supplies for OCDM. During fiscal year 1959, we bought \$123.6 million worth of supplies under these consolidated and individual direct delivery programs. In addition we purchased about \$30.5 million in supplies for the overseas missions of the International Cooperation Administration. Generally speaking, formal advertising procedures are followed in making purchases under our direct delivery programs.

In fiscal year 1959, 83 percent of our contracts for stock replenishment and direct delivery were accomplished under formal advertising procedures, and only 17 percent by negotiation. The latter figure includes transactions such as open-market purchases under \$2,500, proprietary items, exigency purchases, cases where bid prices after advertising are not reasonable, small business set-asides and labor surplus area set-asides. In addition, it is also necessary to negotiate certain purchases for ICA where bids are invited on a world-wide basis.

In addition to these procurement programs, we provide government-wide guidance and direction in such fields as product standardization, cataloging, and inspection and testing.

Product standardization is achieved through issuance of specifications and standards. Federal specifications are technical publications which state the construction and performance characteristics and test methods for specific groups of commodities. They provide the means for obtaining proper quality in procurement, and determining whether the suppliers' offerings meet the necessary user requirements.

Federal standards are documents which limit the range of variations of given commodities for supply purposes by restricting procurement in terms of stock numbers to the fewest essential variations acceptable. They are designed to establish the specific type product best suited to the Government's needs and achieve the highest practicable degree of uniformity. By adopting such standards, the number of different types, sizes, colors, and varieties are reduced, thereby decreasing capital investment in inventories and storage space requirements. We have developed and issued 4,000 Federal specifications, and 145 Federal standards as of the close of fiscal year 1959.

The Federal Catalog System has as its objective the establishment of a single identification for each item of supply in the Federal Government. This provides common supply language in dealing with industry and within Government. GSA is responsible for cataloging all items used by civilian agencies. By the end of last fiscal year we have covered 192,000 items of the ultimate goal of approximately 700,000 items.

Inspection and testing, or quality control, is the safeguard to assure that products bought have been made in accordance with the applicable specification and will satisfy the intended use. Through various techniques we make sure that everything we buy has been properly inspected, either at the manufacturer's plant or point of delivery. We, ourselves, inspected commodities valued at over \$279 million in fiscal year 1959, by performing over 147,000 inspections at contractors' plants, and conducting over 14,000 tests.

The balance of the volume procured was bought under the Federal Supply Schedules or by direct delivery, with inspection responsibility in such cases resting with the ordering agency.

Our motor equipment program produces substantial economies through a nationwide system of interagency motor pools, and provides guidance in the proper care and safety of Government-owned vehicles. By the end of last fiscal year we had established 44 motor pools containing over 13,200 vehicles valued at about \$15 million. This is 3,080 fewer vehicles than that separate agencies would require for the 130 million miles traveled during fiscal year 1959. These pools reduced cost per mile of operation by $3\frac{1}{2}$ cents, from 10.9 cents prior to pooling to 7.4 cents currently.

Federal Supply Service provides Government-wide leadership and guidance in the establishment and publication of uniform purchasing and contracting policies, methods, and procedures. It also promotes the unification of the supply operations of all Federal agencies and their integration into the Federal Supply System.

In this activity we have in Federal Supply Service an Office of Procurement Policy. This office is responsible for the planning, development, and coordination of comprehensive contracting and purchasing policies and procedures for Government-wide utilization in supply and construction activities. Such policies and procedures are published by GSA in the Federal Procurement Regulations, which are mandatory upon all civil agencies of the Government, and, in most cases, permissive insofar as DOD is concerned.

Our procurement policy program is the result of three years of study and review by the interagency task force for the review of Government procurement policies and procedures created in 1956 as a result of recommendation 5 of the Cabinet Committee on Small Business, which pointed up the need for a permanent program in this field.

Assisting the Office of Procurement Policy Committee. This Committee consists of representatives of five major procurement agencies (DOD, SBA, AEC, Agriculture, and GSA). In addition, all other principal procurement agencies have appointed liaison officers to work with the Committee and with GSA in the further development of this program.

GSA also provides leadership and guidance in the unification of the supply operations of all Federal agencies through the preparation and issuance of appropriate regulations, circulars, handbooks, and guides. Also GSA resident specialists are maintained in major supply agencies to provide assistance with respect to improved management practices and to better coordinate agency supply programs with the Government-wide Federal Supply System.

In conformity with the declared intent of the Congress, we provide small business with a fair share of GSA procurement. In fiscal year 1959, 58.1 percent of the value of our purchases was placed with small business firms—substantially more than the 49.9 percent placed with such firms in fiscal year 1958. We have established offices so that businesses, small and large, can obtain the latest information about Government requirements. We have also established procurement procedures designed to increase participation by small business in Government contracts, and continually provide information to the Department of Commerce concerning proposed GSA procurements for dissemination to private industry.

We are presently collaborating with the Department of Defense in their examination of a broad range of general supply items, aimed at determining—

- (1) which items should be retained under individual military departmental control,
- (2) which should be placed under a Department of Defense single manager for consolidated procurement, and
- (3) which items should be decontrolled for interservice purchase or from GSA, or commercial sources.

We expect increased volume of business from the military services in the future as a result. I am sure that you will hear more of this plan from the Department of Defense representatives appearing at this hearing.

DOD UTILIZING GSA FACILITIES

We currently furnish major support to the military by specific agreement, in procuring office furniture, office machines, and office supplies including paper and paper products, and also purchase of substantial amounts of household furniture and general-purpose items such as hand tools. In fiscal year 1959, approximately 62 percent of our purchasing was for Department of Defense.

Another major GSA responsibility is in the area of excess and surplus personal property.

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However, PBS in the management of real property also administers programs for the space planning, acquisition, repair and maintenance of such property. Acquisition of real property is accomplished through new construction, rental and direct purchase.

In arranging for lease of privately owned space, it is our policy to seek competitive bidding through public advertising, the posting of public notices and the distribution of invitations to bid to real estate brokers and other persons who had previously indicated an interest in offering space for lease to the Government. After sealed bids are received and publicly opened as scheduled, it is our policy to accept the bid of the responsive bidder offering space meeting the requirements of the bid invitations at the lowest cost to the Government. Likewise 98.5 percent of the dollar value of all new construction and repair of existing buildings is the result of competitive bidding.

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TRANSPORTATION AND PUBLIC UTILITIES SERVICE

Our Transportation and Public Utilities Service, as the name implies, is responsible for programs which provide transportation and public utilities services for civilian agencies and for the military services at their request.

In this respect, we assist the civilian agencies in meeting their traffic management needs and arrange for the timely and orderly traffic movement of supplies and materials. In fiscal year 1959, GSA routed nearly 7.5 million tons of freight, an increase of about 7 percent over the previous year.

In fiscal year 1958, we effected total reductions in transportation charges of \$12.1 million, and in fiscal year 1959 this total was increased to nearly \$16.7 million. In fiscal year 1958, \$6.7 million of reductions in charges were achieved on GSA shipments, while the balance reported involved movements handled for the remaining civilian agencies.

In fiscal year 1959, the GSA portion of these reduced charges totaled \$5.6 million. These reductions in charges are beneficial result of our statutory responsibility to negotiate with carriers for such transportation services. This statutory duty embraces also our representative role in participating as shippers in Federal and State regulatory proceedings.

We have recently completed a survey of the transportation functions and freight traffic needs of the civilian agencies. Seventy-three representative headquarters and field installations were visited, resulting in 196 recommendations which we believe will materially improve agency traffic programs. Ninety-five percent of our recommendations have already been approved and are being implemented.

This fiscal year we are beginning an onsite transportation assistance program. Our staff will work directly with agency personnel in developing, installing, and supplying sound traffic management policies and procedures. Agencies will also be assisted in identifying problem areas and in making improvements.

We are also preparing a transportation policy manual for the use of the agencies in guiding them in internal traffic management. In cooperation with the General Accounting Office, we have also issued technical publications, such as, "Common Shipping Faults and Their Remedies," an analysis of shipping problems, and "How To Prepare and Process U.S. Government Bills of Lading," designed to instruct traffic personnel in their issuance. The latter was designed to meet the recently revised Government bill of lading form developed by the General Accounting Office.

Every building which houses a Federal activity—large or small—is a user of utility services, and most of these services ordinarily must

be obtained at published normal tariff rates. Therefore, our public utility program has concentrated on the areas of largest potential savings. Here again we participate in selected regulatory rate proceedings before the appropriate Federal and State regulatory bodies to try to get the lowest reasonable rate for the Government.

A significant example is our participation in Federal Communications Commission hearings, which resulted in a 15 percent cut in private line telephone rates. The services involved were closely related to the SAGE program of the Air Force, but other important Government usage was also affected. Annual savings from the action have been estimated at \$15 million. A major portion of this reduction will apply over a 10-year period, thus providing even more substantial savings.

A recent General Accounting Office report on leased private lines recommended another program which is now under way. Our effort, in cooperation with the Department of Defense, will be to combine or consolidate the interests of all Government agencies, and study the feasibility of treating the entire Government as a single customer of the communication services. This should result in discounts not now available and should substantially cut costs for this type of service.

DEFENSE MATERIAL SERVICE

The Defense Materials Service administers the national stockpile of strategic and critical materials and other defense materials programs. The Office of Civil and Defense Mobilization determines policies governing these programs, including setting stockpile objectives. Most current stockpile objectives and other program goals have been met. New contracting, therefore, is limited to a few materials and to upgrading certain materials in the stockpile to higher use forms.

Substantial deliveries, of course, are still being made under existing contracts, about \$200 million worth of materials in this fiscal year. To reduce the Government's contract obligations for materials no longer essential for defense requirements, we have since July 1957, reduced or canceled by mutual agreement contracts for approximately \$340 million.

It is our basic policy to procure materials and service on a competitive basis. There are exceptions to a sealed bid procedure induced by special conditions. Examples would be the procurement of jewel bearings where a single Government-owned plant is the source of supply, or the upgrading of materials presently in the stockpile where public disclosure of several origin points would breach security regulations. Even in these cases where negotiations are resorted to, it is on a competitive basis.

Cost-plus-fixed-fee contracts are limited to a few special activities such as synthetic mica research, operation of the Government-owned jewel bearing facility and three mica processing plants. All such contracts involve either research and development work or the use of Government-owned equipment, and it would not be practicable to contract on any other basis.

All cost-plus contracts are audited at least once a year, and GSA continuously keeps a careful watch over progress under such contracts through inspection trips to the plants and periodic reports.

Our biggest problem today is the maintenance and management of

the stockpile materials in such a way that they will be available for immediate use in an emergency. Last June these inventories amounted to 38 million tons of some 100 materials acquired at a cost of about \$8.3 billion.

The materials are stored at 217 locations, of which 18 are GSA depots, 62 military depots, 7 other Government-owned sites, and 130 commercial facilities or industrial plant sites. We reimburse the military services for storage at their sites, and our relations with them are on the most cooperative basis.

We are presently winding up a physical inventory of the materials at the military, GSA, and commercial facilities. This program was initiated in fiscal year 1957 and is scheduled for completion by June 30, 1960.

What do we do with materials no longer needed for defense requirements? In the past 18 months we have screened the materials in our inventories in order to recommend to OCDM possible disposals. During this period OCDM has authorized the disposal of specific quantities of more than 50 lots in the stockpile or Defense Production Act inventories. These lots of materials which are either subspecification or nonspecification materials were primarily acquired through surplus transfers from other Government agencies.

Stockpile disposals must have the expressed or implied approval of the Congress and cannot be made until 6 months after the proposed disposal plan is published in the Federal Register and submitted to the Congress. The Congress must expressly approve disposals made for any reason other than obsolescence. Disposals requiring express approval are now pending for extra-long staple cotton and natural rubber.

Our last Appropriation Act (Public Law 86-255) provides that replacement is not mandatory when stockpile materials in excess of objectives are sold under the rotation program to prevent deterioration.

Sales under the Defense Production Act cannot be made at less than current market prices. We notify the Joint Committee on Defense Production of proposed sales from such inventories.

Disposals must not cause serious market disruptions. To prevent this, we consult with interested Government departments and, when desirable, with industry advisory committees. Before a sale, a careful market appraisal is made to ascertain realistic prices and possible market impact. Our sales of any material are, of course, limited to a prudent and reasonable percentage of total annual consumption.

Sales are on a competitive basis, and in all cases the Government retains the right to reject any or all bids considered unacceptable. In the case of rubber and fiber, sales are made at prevailing market prices which fluctuate during the course of any given day and are subject to allowances for quality and condition. Adequate advance notice of proposed sales is given to the trade.

I appreciate the opportunity of discussing with you some of the programs of the General Services Administration, and I will try to answer any questions you may have.

The CHAIRMAN. Do I understand that your assistant, Mr. Bean, is with you?

Mr. FLOETE. Yes, sir.

The CHAIRMAN. Will you proceed to talk off the cuff and paraphrase this report?

Mr. FLOETE. The General Services Administration consists of five different services. We believe only four of these are directly of interest to you at this hearing. The fifth service is our National Archives and Records Service and it does not have any particular impact on economic conditions.

The four services that you may be interested in are Federal Supply Service, Public Buildings Service, our Defense Materials Service, which handles the stockpiles, and our Transportation and Public Utility Service.

The Federal Supply Service provides a centralized procurement system for common-use items. We do business with all types of firms, small business, large business, distributors, wholesalers, and jobbers. Actually, the amount of business we do in our various methods is very small compared with the total Government procurement. Our estimate is that approximately \$30 billion of supplies and equipment were purchased in fiscal 1959, and of that, GSA, through its Federal Supply Service, contracted for only \$833 million, or about 3 percent.

The reason for that is obvious. Many of the items of supply in the Defense Department, particularly, are of a nature that cannot be handled through a system such as we operate. However, in certain fields we do have an important percentage, and that is general administrative items, where we do 38 percent of all the business done by the civilian agencies, and including the Defense Department, 22 percent.

That is a growing business. In 1955 we only did \$546 million, whereas our 1959 figure is about \$833 million, and we projected into 1961 as a billion dollars. We operate the Federal Supply Service through three different types of contracts. One of them is known as the Federal supply schedule, which is actually the largest of the group.

We make contracts, open end contracts, with manufacturers who manufacture similar types of items. I think automobile tires is a good example. Each one manufactures its own type of tire but is required to meet specific standards. Quantitative requirements vary, of course. Accordingly, we enter into contracts with these manufacturers, thus providing for nationwide availability of industry distribution facilities over a certain period for certain prices.

It is obvious that there are certain advantages in this method of operating. Last year we entered into 5,700 of these schedule contracts and did business amounting to about \$511 million. In those cases we do not enter directly into the supply system. The using agency orders directly from the manufacturer under these contracts, and he pays them direct. However, we do enter into the contracts. Obviously, this type of contract is not susceptible to direct competitive bids when they are the special items of a particular manufacturer and selection of equipment best suited to perform particular requirements is involved.

We feel very strongly that wherever we can we should have direct competition, and in our other instances we do have that.

The CHAIRMAN. Mr. Floete, what percentage of your contracts and what percentage of your dollar volume, amounting to some \$863

million, were subject to competitive bidding and what percentage to negotiation?

Mr. FLOETE. You understand that on these Federal supply schedule contracts, we have competition except where special items of a particular manufacturer are involved and direct competition is not possible. This is confined to a relatively few contracts.

On all of our direct purchasing, that is, through either our stores program or our direct delivery system, we employ competitive bidding very strongly. About 83 percent of all that contracting is by direct competitive bid and 17 percent is by negotiation.

The CHAIRMAN. Does this apply to your figure of \$863 million?

Mr. FLOETE. No, sir.

The CHAIRMAN. How much does it apply to?

Mr. FLOETE. Under our stores program—we operate stores in each of our 10 regional cities and 2 auxiliary stores—we did last year \$167 million. We did by direct delivery purchases of special items, such as automobiles and refrigerators and that sort of thing, approximately the same amount. Of that, 83 percent is by direct competitive bid.

A portion of the remainder also does not lend itself to direct competitive bidding when special items are involved. In these cases the using agency determines which product is best suited to its requirements.

The CHAIRMAN. Then this 83 percent applies only to how much—\$160 million?

Mr. FLOETE. No. About \$320 million of our total purchases.

The CHAIRMAN. Roughly that would be about \$260 million.

Mr. FLOETE. About 40 percent of our business is by direct purchase or direct shipment or through our stores system.

The CHAIRMAN. Over half a billion are negotiation?

Mr. FLOETE. Yes, that would be about right. About 80 percent of the dollar volume of these other contracts just don't lend themselves to formal advertising. However, a sizable portion is contracted for through competitive negotiation.

The CHAIRMAN. Of course, that is the argument of the Defense Department, that the contracts don't lend themselves to competitive bidding.

STATEMENT OF C. D. BEAN, COMMISSIONER, FEDERAL SUPPLY SERVICE, GENERAL SERVICES ADMINISTRATION

Mr. BEAN. In the case of tires, Mr. Chairman, all of the companies in the United States who have capacity to bid are on the schedule. Everyone participates. We ask for competitive price bids on an informal basis by writing them a letter: "What discounts will you give us?"

When we have received those, we negotiate the balance of them down to the lowest, so that we get the best price.

The CHAIRMAN. Do you find any differences between the prices and terms which the various tire companies offer?

Mr. BEAN. There are some differences when we ask for informal bids. There are always some differences. We are able to reconcile

them through negotiation, so that the high one comes down along with the others.

The CHAIRMAN. Mr. Floete, I appreciate these statements. Our time is somewhat limited. I have gone over your prepared statement. It is largely descriptive.

Mr. FLOETE. Yes, sir.

The CHAIRMAN. I would like to ask you a series of questions. One question is: What improvements do you think could be made (a) in the procurement policies of the Department of Defense; and (b) in other procurement activities of the Federal Government?

We are trying to be constructive.

Mr. FLOETE. The growth of the GSA stores procurement has been constant and steady. For instance, in 1950 we only had a procurement of \$26 million. Now it is \$150 million. In 1956 it was \$90 million. So the growth has been steady. About half of our business, or a little over half of our business, now comes from the military departments, and about half from the civilian agencies.

We are constantly trying to develop further sales with the civilian agencies, and I think it is obvious that the growth with the military agencies has been very substantial. We do not believe that at the present time we are in a position to very much enlarge the type of items that we supply.

We only supply 9,000 items. We stock those in our various stores. It is true those cover administrative items, largely. Of course, that could be expanded. But up to date we have attempted to develop that particular business rather than enlarge the field except in a few isolated cases where we had requests from the using agencies, such as we did from the Air Force with reference to hand tools and also from the Air Force with reference to household furniture.

We offer that service always to all agencies if they want to use it. But by and large we have felt that in our stores program, for the moment at least, we should stay within the confines of the categories of items now stocked that we handle, I believe, very economically and efficiently.

The CHAIRMAN. Do I understand that you buy around \$450 million to \$500 million worth of supplies for the Defense Department each year?

Mr. FLOETE. I think the percentage is 63 percent.

The CHAIRMAN. That is not far from half a billion.

Mr. FLOETE. That is right.

The CHAIRMAN. What are these items that you purchase?

Mr. FLOETE. A great many of them are in these Federal supply schedules. We do handle hand tools, household furniture, office furniture, office machines.

Mr. BEAN. The Air Force takes the entire catalog, both domestically and overseas.

Senator SPARKMAN. Mr. Chairman, I have a 12 o'clock appointment and I must leave. I just want to ask Mr. Floete—I have read most of your statement, although I have not read it all—do you discuss the matter of the machine tools that GSA has?

Mr. FLOETE. Only in passing.

Senator SPARKMAN. Could you supply us a statement on that? The only ones you are responsible for are those that are turned over to you for the industrial supply?

Mr. FLOETE. That is right; the industrial reserve.

Senator SPARKMAN: I wonder if you could give us a memorandum that could be included in the record to that effect.

Mr. FLOETE. Gladly. That has been a growing business. We have been getting more of those items declared excess by the Department of Defense and we put them in storage as we are required to do so.

(The information referred to follows:)

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., February 1, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Defense Procurement,
Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: As requested by Senator Sparkman at the subcommittee's hearing on January 28, a summary statement on the National Industrial Equipment Reserve is enclosed for inclusion in the record.

Sincerely yours,

FRANKLIN FLOETE, Administrator.

NATIONAL INDUSTRIAL EQUIPMENT RESERVE

The General Services Administration maintains a reserve of machine tools and other industrial manufacturing equipment under the National Industrial Reserve Act of 1948 (Public Law 883, 80th Cong.)

In accordance with the provisions of that act, the Secretary of Defense determines the machine tools and other industrial equipment to be included in the reserve; establishes the standards for preservation and maintenance of the items in the reserve; and directs the leasing, lending, or disposal of items in the reserve. As directed by the Secretary of Defense, the General Services Administration receives, maintains, and disposes of the machine tools and other industrial equipment in the reserve. The act limits selections for the reserve to excess or surplus Government-owned property.

The reserve is intended primarily for expansion in an emergency of defense-supporting industries such as manufacturers of ball bearings, gears, tools and dies, and machine tools. Each of the military services also maintains reserves for current or mobilization requirements of direct military contractors and producers specifically designated as mobilization suppliers.

The reserve consists entirely of machine tools and other industrial equipment selected by the Secretary of Defense from lists of such property declared excess by the military departments and other Federal Government agencies and not required for the reserves maintained by the military departments. The Secretary of Defense also considers requests for leasing tools in the reserve and requests of nonprofit educational institutions or training schools for the loan of such tools and directs GSA as to what action is to be taken on such requests. The Secretary of Defense regularly reviews the items in the reserve to assure that they continue to be required for the reserve based on determinations that the tools would still perform effectively in an emergency, and he directs GSA to declare excess any tools no longer required.

The 4,990 items in the reserve on December 31, 1959, included 13 items on lease and 78 items on loan to an educational institution. Of the total items in the reserve, approximately 4,700 items were general purpose metalworking machinery, and the other 290 items were materials handling devices and miscellaneous production aids. The Department of Defense estimates that new selections for the reserve will be 3,000 items annually in fiscal years 1960 and 1961.

Loans to nonprofit educational institutions or training schools may be made to equip industrial education centers as complete entities when the Secretary of Defense determines that the program for which the equipment is required will contribute materially to the national defense. In 1959 the Secretary of Defense approved the first such loan, which covers 78 items having an original acquisition cost of \$417,893.

Status of national industrial equipment reserve as of Dec. 31, 1959

	Number of Items	Tons	Original acquisition cost
1. Items in NIER on Dec. 31, 1959	4,000	24,192	\$40,304,730
2. Items on lease on Dec. 31, 1959 (included in 3)	13	400	100,374
3. Items on loan on Dec. 31, 1959 (included in 3)	78	200	417,833
4. Items on which shipping instructions have been issued but delivery not made or recorded at NIER warehouses on Dec. 31, 1959	501	4,420	9,284,305
5. Total tons processed for extended storage through Dec. 31, 1959		28,707	

Senator SPARKMAN. I am sorry to go, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Sparkman.

GSA AUTHORITY OVER DISPOSAL

Mr. Floete, do I understand that in the original act, 201(a), dealing with General Services, that you were given general power over the purchases of the Defense Department?

Mr. FLOETE. Yes, sir; except that particular section of the act which provided, notwithstanding the terms of the act, the Secretary of Defense could exempt himself from the operation of the act.

The act was passed in 1949, and I believe it was about 1950 that the Secretary of Defense did ask for exemption. Our legal counsel is here. He can correct me if I am incorrect here. That was denied.

The CHAIRMAN. Is it not true that President Truman issued an Executive order that Defense was not to have exemption?

Mr. FLOETE. This is Mr. Macomber, our General Counsel.

The CHAIRMAN. I hold in my hand our staff report which gives a directive from President Truman dated July 1, 1949, which denied to the Secretary of Defense the power of exempting the National Military Establishment without the approval of the President.

Mr. FLOETE. That is correct.

EISENHOWER CANCELS TRUMAN DIRECTIVE

The CHAIRMAN. Is it true that on the 8th of June 1954, President Eisenhower in another Executive order canceled the directive of President Truman, and therefore permitted the Department of Defense to exempt itself from the provisions of the act?

Mr. FLOETE. Yes, sir.

The CHAIRMAN. Do I understand the answer to be that that is true?

Mr. FLOETE. Yes; that is correct. Subsequently the Department of Defense did exempt itself as to transportation matters covered by that section of the act.

DOD EXEMPTS ITSELF

The CHAIRMAN. In what specific instances or areas has the Secretary of Defense exempted himself from the application of section 201(a) of your act?

Mr. FLOETE. Only in that one case—transportation.

The CHAIRMAN. Transportation?

Mr. FLOETE. Yes.

The CHAIRMAN. Land or sea?

Mr. FLOETE. All transportation.

The CHAIRMAN. What in your judgment have been the consequences of this exemption?

Mr. FLOETE. Shortly after that time, GSA and the Department of Defense entered into three agreements which provided the GSA would supply all items of office furniture and equipment, all paper products, and office machines. We have been operating on that ever since. We have increased our business with the Defense Department very materially, as I said before.

I suppose, Mr. Chairman, that under this act we could say to the Department of Defense, "We are going to handle all items of a certain nature."

The CHAIRMAN. Common-use items.

Mr. FLOETE. As an example of that; yes. We could say that. I suppose under the act, the Secretary of Defense could say, "No," and then the matter would go to the President for decision.

The CHAIRMAN. Who has already made a ruling that the Department of Defense can exempt itself?

Mr. FLOETE. Yes; but it would come up as a specific case.

STATEMENT OF JAMES H. MACOMBER, JR., GENERAL COUNSEL, GENERAL SERVICES ADMINISTRATION

Mr. MACOMBER. I think, Senator, that the way the matter now stands is that President Eisenhower's letter merely retracted the previous directive that the Department of Defense was not to exempt itself, leaving it open for the Secretary to claim such an exemption but subject to an appeal, as it were, by the Administrator to the President under the language, unless the President shall otherwise direct.

The CHAIRMAN. Suppose the Secretary of Defense decided to take away the handtool business, which I understand you manage for them. What would you do about that?

Mr. FLOETE. We would object.

The CHAIRMAN. Let the reporter note there was a significant pause.

Mr. FLOETE. I know this is a controversial point, Mr. Chairman.

Senator JAVITS. Would the chairman yield?

The CHAIRMAN. Yes.

Senator JAVITS. It seems to me when titans clash there must be a significant pause.

The CHAIRMAN. I was not giving any derogatory connotation in the slightest. I merely wanted to have the reporter, in the record, show there was a pause.

GSA NOT AWARE HOW NEW DOD SYSTEM WILL WORK

Mr. FLOETE. We do not know there is any movement afoot to take that away from us because we do not know how this new system of the Department of Defense is going to work. We have not been advised that we are going to lose that business.

The CHAIRMAN. Have you heard rumblings?

Mr. FLOETE. Yes, sir.

The CHAIRMAN. So have we.

Now may I ask this question: Does the General Services Administration Act vest you with authority over the disposal of surplus property?

Mr. FLOETE. General authority; yes, sir.

The CHAIRMAN. Have you delegated authority to the Department of Defense for the largest portion of this disposal?

Mr. FLOETE. We have.

The CHAIRMAN. Why did you do that?

Mr. FLOETE. I was not here at the time, but I am sure for the very practical reason that the problem is so huge; the GSA would be absolutely unable to cope with it.

The CHAIRMAN. Do you think you should reconsider?

GSA UNABLE TO HANDLE SURPLUS DISPOSAL

Mr. FLOETE. There is a matter of storage responsibility, and accountability running into billions of dollars, as you know. GSA just does not have that capacity in my opinion. We feel that we should do it and we are doing it as to the civilian agencies.

NEED FOR MORE UTILIZATION OF SURPLUS

We believe further that we can greatly improve the position of the Government by seeing that there is better utilization within the other agencies of Government and a more aggressive donation policy to State agencies so to use up a very substantial amount of this surplus.

We have actively gone about that and instituted a new system which is already producing very significant results and will increase both the utilization by other agencies and the donation program substantially.

The CHAIRMAN. Am I correct in understanding that the disposal program is greater now in dollar volume than it was during the days of the War Assets Administration?

Mr. FLOETE. I understand it will be about \$10 billion for next year.

Mr. BEAN. Your statement is correct, sir.

The CHAIRMAN. What puzzles me about this whole thing is to have the enormous volume of this material which is being sold off each year at the same time there is a tremendous volume of current purchases. Cannot a large part of this material which is being sold, as we have seen, really at no return to the Government, be used so that the volume of current purchasing can be reduced and savings effected?

Mr. FLOETE. We are attacking it on just that line, to get greater utilization and greater donation. A great proportion of this so-called \$10 billion excess is made up of items that are not usable by other agencies or even by the States. This is all at acquisition cost. It includes such things as B-36 bombers and military weapons of various kinds that have no further civilian use.

I do not think you can generalize and say "Because there is \$10 billion, there is so much available."

The CHAIRMAN. I believe 40 percent are items which could be used for civilian purposes.

Mr. FLOETE. Forty percent in dollars?

The CHAIRMAN. In items.

Mr. FLOETE. We do not have that data, sir.

Senator JAVITS. Mr. Chairman, I would like to be excused. I have someone waiting and I have to get to the floor for the debate on the poll tax business.

Mr. Floete, I know I join with our chairman in appreciating your presence here and assure you that I will certainly study the things you have offered. I hope if we do have some further questioning, because the Chair apparently has quite a list of questions, that we may have another opportunity perhaps by inviting you here or going to see you.

Mr. FLOETE. Certainly, sir.

Senator JAVITS. Thank you.

The CHAIRMAN. Do you find the Defense Department disposing of clothing items, transportation equipment, and so forth, which could certainly be used by the Armed Forces, particularly in home stations?

Mr. FLOETE. I think that the Defense Department would have to answer that, because they are items which are not reported to us. Is that correct?

Mr. BEAN. I would presume so.

The CHAIRMAN. I still do not think you have answered the question which I raised some minutes ago: What improvements can we make in the whole system of purchase, storage, supply, and disposal.

Mr. FLOETE. We feel that we should continue to handle the line of items that we are now handling, that we should enlarge that as we find a field where we can handle it expeditiously and economically. That goes for both the civilian agencies and the Defense Department.

The CHAIRMAN. What specific items do you think you should take over?

Mr. FLOETE. I think it is more a question of what we retain. I think we should retain all common-use items.

The CHAIRMAN. You are afraid that your present list will be raided?

Mr. FLOETE. We do not know, sir. We think we should retain the common-use items we are now supplying and the machine tools.

The CHAIRMAN. What about handtools?

Mr. FLOETE. Hand tools; yes, sir.

SINGLE MANAGER FOR HANDTOOLS IN DOD

The CHAIRMAN. Is it not true that the Department of Defense is setting up a single-manager system for a category which includes handtools?

Mr. FLOETE. Yes, sir; they are.

The CHAIRMAN. So although you have not been formally notified by them, you are aware of the administrative action which they are taking; is that not true?

Mr. FLOETE. Yes. But we have not been advised that this single manager might not make the same agreement with us. We do not know that. He might say to us, "You handle the handtools."

I have a letter here which we have addressed to the Department of Defense that states our position on this quite concisely.

The CHAIRMAN. That is what I am trying to find out from you—what your position is. Could you read the salient paragraph?

Mr. FLOETE. Yes, sir.

We appreciate the opportunity to furnish data on items of interest to GSA for consideration by single managers in determining methods of supply in general and industrial supplies for the military service.

That covers most of the items we are talking about.

Most of the items in the categories under study are commercial in nature. They are used extensively by civil as well as military agencies. GSA must support civil agencies on these items and has been providing significant support to the military services on many of them.

Such a combination, governmentwide, of these common-use items does much toward obtaining the optimum in terms of economic and efficient agency supply support which is our objective. We strongly believe that the concept of integrated Federal civil and military supply support should be a significant consideration by the single managers in making their determinations.

The interdepartmental procurement assignments of office supplies, office machines and furniture established GSA as the single buyer for these commodities. This is a concept that we think should be applied to the items now under study. We assumed support for the Air Force of a major segment of their handtools and household furniture on short notice and are now rendering efficient service on these items.

We feel very strongly in the area of commercial-type common-use items GSA and the military should not compete with each other in the market. Our record of performance in supporting military services on such items should result in designation of GSA by the single managers as the supporting agency for such items.

That is our position, sir.

The CHAIRMAN. Do you not have the authority to claim this field?

Mr. FLOETE. Yes, I think we do. I think it is better to exercise it in a persuasive manner such as this than otherwise, unless that is necessary.

ATTITUDE OF BUREAU OF THE BUDGET

The CHAIRMAN. What is the attitude of the Bureau of the Budget on this matter?

Mr. FLOETE. I cannot speak for them, sir.

The CHAIRMAN. Did not the Bureau of the Budget write the Eisenhower letter in 1954?

Mr. FLOETE. I am not certain who wrote it.

The CHAIRMAN. Does it not normally perform those chores?

Mr. FLOETE. I do not know who wrote it, sir.

The CHAIRMAN. Then you have no really constructive suggestions for improvement. You merely want to hold on to what you have, but no suggestions as to how you can improve the quality of your own service or how other agencies of the Government could improve theirs?

Mr. BEAN. The part of Mr. Floete's statement that he just read, which I think is very significant, is that "We feel very strongly that in the area of commercial-type and common-use items that GSA and the military should not compete with each other in the market."

It could only be on that basis that you would have to make assignments to one or the other. We feel that competition in there is not in the best interest of the Government in common-use items.

Mr. FLOETE. We are constantly trying to improve all facets of our management and, as a result, have reduced very materially the cost per hundred dollars of handling. We constantly attempt to improve our buying procedures so that we get the best we can for the dollar. We give due recognition to small business.

GSA GIVES PREFERENCE TO LABOR SURPLUS AREAS

I heard the discussion earlier this morning, but as far as GSA is concerned on set-aside programs, we have a direct preference for labor surplus areas. That is the No. 1 in any set-aside, small business in labor surplus areas. Next, any business in a labor surplus area.

FIFTY-EIGHT PERCENT OF PURCHASES FROM SMALL BUSINESS

We follow that policy very carefully. Fifty-eight percent of our dollar purchases last year were from small business. That compares with, I think, 49 percent the year before. I think it is the best percent we have had.

The CHAIRMAN. As a general matter, do you think that the percentage of purchases by competitive bidding on the part of the Defense Department should be increased?

Mr. FLOETE. What is it now—15 percent?

The CHAIRMAN. It is running 13 to 14 percent of dollar volume by competitive bidding, and between 86 and 87 percent on negotiated contracts.

The figures which the Senator from Alabama read into the record indicated that almost half of these negotiated contracts are with one single firm.

Mr. FLOETE. Sir, I do not know the exact problems of the Department of Defense. I think they are different from GSA's. But I would certainly make every effort to have a bigger percent of direct competition where it is possible to do so. For instance, as you know, we do a certain amount of public construction of new buildings and we do a great deal of repairing of old buildings, and over 98 percent of those contracts are by direct competition.

We stick to it religiously. Even in our Defense Materials Service where we handle the stockpile, to the extent possible we have direct competition.

The CHAIRMAN. Do you find that very frequently you will have identical bids from divergent suppliers? That they all come to the same figure?

Mr. BEAN. Not very frequently. Once in a very great while.

Mr. FLOETE. There is a lot of competition in the stuff we buy. We get lots of bids.

The CHAIRMAN. Do you purchase cement?

Mr. BEAN. No; not as a usual thing.

The CHAIRMAN. You said the bids were different for tires.

Mr. BEAN. The initial bids are usually different, but then we negotiate down to the lower point. They are not all the same. No, indeed.

The CHAIRMAN. Mr. Macomber, I wonder if you would read section 201(a) of Public Law 152 into the record so we may have it.

Mr. MACOMBER. Yes, sir. Section 201(a):

The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency or service, and with due regard to the program activities of the agencies concerned—

(1) prescribe policies and methods of procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, property identification, and classification, transportation and traffic management, management of public utility services and repairing and converting; and

(2) operate and after consultation with the executive agencies affected, consolidate, take over or arrange for the operation by any executive agency of warehouses, supply centers, repair shops, fuel yards and other similar facilities; and

(3) procure and supply personal property and nonpersonal services for the use of executive agencies in the proper discharge of their responsibilities, and perform functions relating to procurement and supply such as those mentioned above in paragraph (1); provided, that contracts for public utility services may be made for periods not exceeding 10 years;

(4) with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public—

GSA ASSUMPTION OF AUTHORITY

The CHAIRMAN. I think that is adequate, Mr. Macomber. I would now like to ask Mr. Floete whether you have taken jurisdiction over these fields in which powers were granted you by the basic act?

Mr. FLOETE. Yes, we have taken jurisdiction over each one of them to a certain extent.

The CHAIRMAN. To what extent?

Mr. FLOETE. It is all a matter of degree. In the field of transportation and public utilities, we represent executive agencies in hearings before regulatory boards. We are very active in that wherever we think the Government, as a user of the service, is involved.

We plead in the hearing wherever it may be. I think we have had some material success in a recent case with the American Telephone & Telegraph Co. last year where we at the request of the Air Force interceded in the so-called SAGE matter, with the result that the cost to the Government was reduced about \$15 million a year under contracts which may run as long as 10 years.

The CHAIRMAN. \$15 million a year?

Mr. FLOETE. Yes, sir.

The CHAIRMAN. For each of 10 years?

Mr. FLOETE. If the contracts run out as they are now signed for.

The CHAIRMAN. I could not hear you. \$15 million or \$50 million a year?

Mr. FLOETE. \$15 million a year.

The CHAIRMAN. So the total potential savings would be \$150 million?

Mr. FLOETE. That is correct, sir. That was a hard-fought case. We participated in it fully. We have other cases of a similar nature. I think we have discharged—I do not say it is fully discharged; I think we could go much further if we had the size and capacity to do it—we have certainly gone ahead in the field of common-use items.

We have established 10 depots all over the United States. We have an inventory in them of about \$51 million. We have a good turnover. Under Mr. Bean's management—he has been in this kind of business all his life—we have greatly reduced our cost. We think we are giving efficient service to all of the agencies of the Government and at very much less cost than they could procure it individually.

We were charged with the responsibility for the stockpile. That is a very large matter. It has about \$8.3 billion cost to the United States. It is stored in about 217 warehouses, many of which are Government-owned or belong to the military. We are just completing an inventory for the first time in history and are very happy to say that the actual inventory figures coincide very, very closely with the book figures.

As part of that inventory taking, it was necessary to repackage and restack this very valuable stockpile, and that has been done as a part of this program. Within Defense Materials Service we have constantly tried, particularly in the last 2½ years, to reduce the Government's liability under existing contracts.

The CHAIRMAN. Thank you very much, Mr. Floete, for coming.

Mr. FLOETE. Thank you, sir.

The CHAIRMAN. We will recess until 2 o'clock this afternoon.

(Whereupon, at 12:30 p.m. the subcommittee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

We are fortunate in having with us as witnesses this afternoon Mr. Richard J. Newman and Ray Ward, who are members of the temporary staff assigned to the study of defense procurement. We are happy to welcome back Senator O'Mahoney, who has been the leader in this attempt to have the Defense Department follow proper procurement policies.

Senator O'MAHONEY. I was just a little insistent. Congressman John McCormack and Congressman Curtis have labored very diligently for this.

The CHAIRMAN. I know that.

Representative CURTIS. Senator, lest this get too far, I think we have all been very deeply concerned.

The CHAIRMAN. I want to say that Congressman Curtis has been very active in this field.

Would you gentlemen proceed in your own way.

STATEMENT OF RAY WARD, PROFESSIONAL STAFF MEMBER

Mr. WARD. Mr. Chairman, my name is Ray Ward. I am permanently assigned to the McCormack subcommittee of the House Government Operations Committee and, as you know, on temporary loan to this committee. I wanted first to clear up a matter that was discussed this morning with respect to the General Services Act, Public Law 152 of the 81st Congress. That act was considered over a great many years before it was finally passed on the first of July 1949. The most complicated problem in connection with the act was the relationship between the military and the civilian branches of the Government. The military was so large as compared to the civilian that it was a real problem as to how the two would gear together in this common act.

BACKGROUND ON GENERAL SERVICES ACT

After 2 years of negotiation back and forth at the executive office level the Federal Property Act of 1948 was reported by the Senate Expenditures Committee but was not acted on in the House, and later on when the 1949 act itself came up, we finally worked out what is known as section 201(a). "Property management, procurement, warehousing and related activities," which is the core of the act.

I want to refer to that again, and, if I may, Mr. Chairman, put the whole section in the record.

(The material referred to follows:)

TITLE II—PROPERTY MANAGEMENT

PROCUREMENT, WAREHOUSING, AND RELATED ACTIVITIES

SEC. 201. (a) The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned—

(1) prescribe policies and methods of procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, property identification and classification, transportation and traffic management, management of public utility services, and repairing and converting; and

(2) operate, and, after consultation with the executive agencies affected, consolidate, take over, or arrange for the operation by any executive agency of warehouses, supply centers, repair shops, fuel yards, and other similar facilities; and

(3) procure and supply personal property and nonpersonal services for the use of executive agencies in the proper discharge of their responsibilities, and perform functions related to procurement and supply such as those mentioned above in subparagraph (1): *Provided*, That contracts for public utility services may be made for periods not exceeding ten years; and

(4) with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies;

Provided, That the Secretary of Defense may from time to time, and unless the President shall otherwise direct, exempt the National Military Establishment from action taken or which may be taken by the Administrator under clauses (1), (2), (3), and (4) above whenever he determines such exemption to be in the best interests of national security.

(b) The Administrator shall as far as practicable provide any of the services specified in subsection (a) of this section to any other Federal agency, mixed ownership corporation (as defined in the Government Corporation Control Act), or the District of Columbia, or the Senate, or the House of Representatives upon its request.

(c) In acquiring personal property, any executive agency, under regulations to be prescribed by the Administrator, may exchange or sell similar items and may apply the exchange allowance or proceeds of sale in such cases in whole or in part payment for the property acquired: *Provided*, That any transaction carried out under the authority of this subsection shall be evidenced in writing.

AUTHORITY OF ADMINISTRATOR OVER COMMON SUPPLY

Mr. WARD. The act really gave the Administrator authority over these common supply areas and other related supply-management functions—procurement, contracting, inspection, storage and issue, transportation, utilities, and so on. It also provided that the Secretary of Defense could exempt his Department where he thought security was involved unless the President ruled otherwise.

PRESIDENTIAL DIRECTIVE

It was known that there were some directives in the making so when President Truman signed the act he wrote a letter to the Bureau of the Budget and to the General Services Administration and the National Military Establishment saying in effect to the Secretary, "I don't want you to exempt yourself from this act." He told them all to get together and work out what was known as an area-of-understanding program between them with regard to all of these common facets, and there are a great many of them, Mr. Chairman.

This Presidential directive instituted the program which covered 8 or 10 or 12 facets of supply management, and the program moved along fairly well for a while, but eventually it ran into, I will say, the bureaucracies of the Department of Defense and bogged down.

RESTORATION OF DIRECTIVE

Then on June 8, 1954, President Eisenhower revoked the directive that had been issued by President Truman. That was June 8, 1954. That action in effect permitted the Secretary of Defense, whenever he chose, to say, "We don't want to be under this act."

As Mr. Floete said this morning, and also his general counsel, they don't know who prepared the directive, but it was prepared. The point is that any time in the future, unless there is intervention at a higher level than both the DOD and GSA, the same thing may happen again. Currently a program is being developed with respect to the procurement of hand tools for the whole Government. The GSA is doing a good job according to the industry people who have written this subcommittee,¹ and the Air Force themselves are pleased with the service they have received from GSA.

GSA NEEDS FIRM PROGRAM

It could well be that whole program will be taken away from General Services overnight. That would be extremely bad because GSA is relatively small compared to the Department of Defense and they would be left with stocks on hand.

NEED FOR NEW DIRECTIVE

The same sort of thing has happened in the past. I mention this because it is important that the Bureau of the Budget or the President issue another directive in order to stabilize the program that General Services is going to have with respect to the military.

Senator O'MAHONEY. What is the matter with the law that any department may exempt itself?

Mr. WARD. Senator O'Mahoney, that section was worked out over a long period of time and all I can say is that it was the best compromise that could be developed at the time. The military were just too strong with respect to the other agencies including the Bureau of the Budget, where I was working at the time.

Representative CURTIS. You are talking about section 201?

Mr. WARD. Section 201 of Public Law 152.

¹ See letters, pp. 512-515.

Representative CURRIS. I wonder if you would stress the pertinent sections where this interpretation came in so that we can follow this. The CHAIRMAN. Yes. (The material referred to follows:)

TITLE II—PROPERTY MANAGEMENT

PROCUREMENT, WAREHOUSING, AND RELATED ACTIVITIES

Sec. 201. (a) The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned—

(1) prescribe policies and methods of procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, property identification and classification, transportation and traffic management, management of public utility services, and repairing and converting; and

(2) operate, and, after consultation with the executive agencies affected, consolidate, take over, or arrange for the operation by any executive agency of warehouses, supply centers, repair shops, fuel yards, and other similar facilities; and

(3) procure and supply personal property and nonpersonal services for the use of executive agencies in the proper discharge of their responsibilities, and perform functions related to procurement and supply such as those mentioned above in subparagraph (1); *Provided*, That contracts for public utility services may be made for periods not exceeding ten years; and

(4) with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies;

Provided, That the Secretary of Defense may from time to time, and unless the President shall otherwise direct, exempt the National Military Establishment from action taken or which may be taken by the Administrator under clauses (1), (2), (3), and (4) above whether he determines such exemption to be in the best interests of national security.

Mr. WARD. This is under Title II: Property Management—Procurement, Warehousing, and Related Activities, section 201(a):

The Administrator shall, in respect of executive agencies and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned (1) prescribe policies and methods of procurement and supply functions, such as contracting, inspection, storage, issue, property identification, transportation and traffic management, management of public utility services and repairing and converting, and (2) operate, and after consultation with the executive agencies affected, consolidate, take over or arrange for the operation by any executive agency of warehouses, supply centers, repair shops, fuel yards and other similar facilities, and (3) procure and supply personal property and nonpersonal services for the use of executive agencies in the proper discharge of their responsibilities, and perform functions relating to procurement and supply such as those mentioned above in subparagraph 1, provided that contracts for public utility services may be made for periods not exceeding ten years, and (4) with respect to transportation and other public utility services for the use of executive agencies representing such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before the Federal and State regulatory bodies, provided that the Secretary of Defense may from time to time, and unless the President shall otherwise direct, exempt the National Military Establishment from action taken or which may be taken by the Administrator under clauses 1, 2, 3, and 4 above whenever he determines that such exemption will be in the best interests of the national security.

Now, in order to protect that section, there was a section 205(a) added to the act. I should like to read it:

POLICIES, REGULATIONS, AND DELEGATIONS

Sec. 205. (a) The President may prescribe such policies and directives, not inconsistent with the provisions of this Act, as he shall deem necessary to effectuate the provisions of this Act, which policies and directives shall govern the Administrator and executive agencies in carrying out their respective functions hereunder.

SECRETARY WILSON EXEMPTS DOD

As I stated previously immediately upon the passage of the act the President wrote a letter directing the military not to exempt themselves. That stood until it was revoked on June 8, 1954. Then on October 2, 1954, Secretary Wilson wrote to the effect—

that by virtue and authority vested in me under section 201(a), title 2 of the Federal Property and Administrative Services Act of 1949 as amended, I have determined it to be in the best interests of national security for the Department of Defense to be exempt from action taken or which may be taken by the Administrator of General Services Administration under section 201(a) 3 and 4 of said act, in (a) the prescription of policies and methods of procurement and supply of transportation and traffic management, (b) the performance of functions related to the procurement and supply of transportation and traffic management, and (c) the representation in negotiations with carriers and in proceedings involving carriers before Federal and State regulatory bodies in transportation and traffic management.

2. The Secretary of Defense will continue to cooperate with the General Services Administration in transportation and traffic management matters of mutual interest. In those instances in which the General Services Administration and the Department of Defense have mutual interests and common objectives, the Department of Defense will continue to act jointly with the General Services Administration.

This exemption shall become effective at 12:01 a.m., EDT, 2 October 1954.

Representative CURRIE. How was that issued?

MR. WARD. A letter was written, Congressman Curtis, to Mr. Mansure.

Representative CURRIE. Mr. Mansure was head of the GSA?

MR. WARD. He was at the time.

Representative CURRIE. How was it published?

MR. WARD. This was put in the Federal Register.

Representative CURRIE. I think the reference should show in the record here where that can be found. Do you have that reference?

MR. WARD. Yes. Would you care to have that put in the record?

Representative CURRIE. Yes, sir.

MR. WARD. 19 Federal Register 6611.

There is one other matter I would like to mention if I may, Mr. Chairman, with respect to the discussion this morning on contracting. But before that I should like to make reference to this chart, and if I may plagiarize on you a bit, I want to again discuss "what is a billion dollars?"

You stated in a speech 2 or 3 years ago that \$16,650,000 would make a pile of \$10 bills the height of the Washington Monument—555 feet. Sixty Washington Monuments of 10-dollar bills would be a billion dollars. If you put the \$10 bills end to end, they are just 6 inches long, about \$2,640 million worth would go around the earth, 25,000 miles. About \$26 billion worth, would reach to the moon—240,000 miles.

We are interested in that distance at the present time but this is by way of illustration. So when we talk about a billion dollars—

The CHAIRMAN. Are you suggesting that the road to the moon is paved with \$10 bills?

Mr. WARD. That is really out of my field, but it may soon be.

Representative CURTIS. You are going to refer to these tables, Mr. Ward. Are they prepared in a way that they can be put in the record?

HISTORY OF SUPPLY MANAGEMENT

Mr. WARD. They will subsequently be put in the record, Congressman. I should like to go back a bit in the history of supply-management since you gentlemen have all been interested in it.

ECONOMY MAY BE CRITICAL

In writing of the national security bill in 1947, Secretary Stimson said:

It is my considered opinion that the new Secretary of Defense will have it in his power to integrate our Armed Forces as they have never been integrated before. In World War II we accomplished great things by cooperation between two separate departments, but from that experience we learned that cooperation is not enough. I will not rehearse the unhappy list of duplications or the instances of friction and disagreement which then hampered our work, but I would emphasize that each succeeding emergency in the last 50 years has made heavier demands on our armed services.

The element of economy in our use of armed force might well be critical in any future contest. It came nearer to being critical toward the end of this last war than I had dreamed likely during the years preceding the war. I do not mean economy in dollar terms (though in the long run we should greatly gain in that respect too under this bill), but rather the strategic economy which exerts maximum force with limited national resources.

Without increased unity we can not get that kind of economy; we will continue instead to operate with the wasteful opulence that has characterized much of our work in the past. This new bill provides the framework for the increased unity we need.

GENERAL EISENHOWER'S STATEMENT

General Eisenhower on June 2, 1945, made a statement along the same line:

Efficiency must be attained with maximum economy. This means expensive duplication must be ruthlessly eliminated.

If you wish, I will put this document in the record.

The CHAIRMAN. Yes, I wish you would.

(The data referred to follows:)

SUPREME HEADQUARTERS, ALLIED EXPEDITIONARY FORCE,
OFFICE OF THE SUPREME COMMANDER,
June 2, 1945.

HON. CLIFTON WOODRUM,
Chairman, Select Committee,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Through the War Department there has been cabled to me your request that I submit to your committee my general views on the universal military training program after the war. In view of the time element my comments must necessarily be brief and confined almost exclusively to policy as opposed to any specific plan.

There are certain truths which I feel must be widely and definitely understood before any logical approach to this problem is possible. Some that seem most important to me are:

(a) In spite of all technological advances, numbers (great strength in all arms, land, sea and air) are vitally important in war and America's approved military system must aim at the rapid development, after the beginning of any serious war, of the country's maximum potentialities in leadership, manpower, equipment, technique and industrial capacity.

(b) Fairness to the country and to the individual's chances of survival in war demand that each able-bodied citizen receive in time of peace a thorough grounding in technique, discipline and understanding of the citizen's obligations in time of emergency.

(c) Integration of the means for waging war is vitally essential. There is no such thing as separate land, sea and air war. We have proved over and over again in Africa and Europe that, through real integration, forces of the several arms and services multiply rather than merely add their separate tactical effects. Organization and training procedure must be such as to provide the necessary specialization in techniques in the Army, the Navy and the Air Forces, all of which must be coequal in the organizational scheme, but must also be such as to facilitate integration.

(d) Efficiency must be attained with maximum economy. This means—

(1) Expensive duplication must be ruthlessly eliminated.

(2) The great forces necessary in war must be produced through a citizen training system in time of peace; that is, with minimum sized professional nucleus and maximum capacity for training the national manpower. Individuals under training must recognize that the period involved is one of education and training. Pay must be nominal. There must be no attempt to compete with industry in the matter of wages. The training is an obligation to the state and to the individual himself.

Additional comments under lettered sub-paragraph below apply to similarly lettered paragraphs above.

(a) There would no longer seem to be any reason for arguing the need for numbers in war. In a serious war the quicker the maximum potential can be converted into tactical power the surer the victory and the less the cost. The whole purpose of military preparation—and this is in consonance with every commendable effort to devise a workable organization for world peace—is to develop this maximum, properly balanced and fully efficient, at the earliest possible moment.

(b) The contrasting character of the performance of only partially trained troops on early battlefields of Tunisia and that of thoroughly trained ones on their first entry into the battlefields of Italy and France affords ample proof of the value of effective training prior to entry into battle. The difference is measured both in tactical effectiveness and in loss of life. Training consists of several parts, included in which are:

Technical training.

Physical hardening.

Psychological and moral training.

To realize the purpose of speediest possible development of maximum power, after an emergency, obviously much of this training must be done in peace. Physical hardening will always have to be repeated after the war starts, but takes the least time.

Technical training takes more time, but with individuals graduated from a full course of training before the emergency starts, units with competent leaders will quickly qualify for service.

Psychological indoctrination and moral training requires the longest time but fortunately it is never completely forgotten. This type of training is of incalculable importance. Through it is obtained battlefield discipline, esprit, an understanding of the basic justice of the fight the country is waging and a proper perspective of the contributions the individual is making to success. An informed, understanding soldier is a good soldier and units composed of such men are effective battle organizations. There is no possibility of overemphasizing the value of intelligent training of this kind.

(c) Integration of the means for waging war is a psychological problem as well as one of mere organization. The national mass, civilians and the unformed services, must have a common understanding of the ideals and reasons for which the United States will fight a war, and the training in this regard must be intelligent and incessant. This is the first step toward integration, and one, but only one, of the important reasons for universal service in time of peace. In the fighting services themselves there must be integration of direction and decision that is achieved first in higher organization. I believe there are

several methods by which this might be accomplished, but the one vital factor is that there must be one decisive voice at the top who can give his entire time to problems of war directions. This same policy must apply in every major theater of war. Mere integration of war direction, however, is not sufficient. Particularly for the individuals of the professional forces, who must in any event furnish the greater part of the higher tactical and strategical direction of war, there must exist a unification in thought, purpose and training that must begin in the earliest periods of their service. Every possibility must be exploited to produce mutual understanding, common devotion to a single purpose, and individual and collective friendliness among the whole mass.

(d) Always remembering that speed in full mobilization after the war starts is the surest way of minimizing cost, it is obvious that as much as possible of this task must be accomplished in peace. But any attempt to carry out this task through maintenance of large professional forces or of looking upon the individual's training period as anything else but a period of necessary education, would build up the cost so as to be insupportable. The whole concept of organization should be one involving the "citizen forces" idea.

Sincerely,

DWIGHT D. EISENHOWER.

QUALITY OF DEFENSE PROCUREMENT

Mr. WARD. The statement of the Comptroller General this morning and the reports of the General Accounting Office reflect the quality of the defense procurement program, particularly with respect to negotiated contracting. The Comptroller General emphasized that the reports are typical, or we might say, a sampling of all contracts. He could not, with his limited staff cover every contract.

SCOPE OF DOD SUPPLY ACTIVITIES

These figures on the chart indicate the magnitude of the DOD supply program. I don't know whether you can all see it or not, but it shows as of June 30, 1959, that the holdings of the DOD in real and personal property were \$150 billion. It shows the acquisition cost of personal property to be \$117 billion worldwide. It shows, as the chairman mentioned this morning, covered storage worldwide of 585 million square feet.

I might add that is about 21 square miles of covered storage space. That would be a depot roughly 4½ miles on the side.

Senator O'MAHONEY. Mr. Ward, what is the source of this information?

Mr. WARD. The information that I am giving you, Senator, comes from a report that is annually made by the Government Operations Committee of the House. It is compiled from the statistics received from the executive agencies, in this case the DOD.

Senator O'MAHONEY. Is there any dispute about these figures?

Mr. WARD. I don't believe so because the military people themselves use these figures.

(The table referred to follows:)

Magnitude of Department of Defense support activities

PROPERTY HOLDINGS

	<i>Billions</i>
Land, buildings, fixed equipment.....	\$33
Major weapons.....	79
Supplies.....	47
Total.....	159

PROCUREMENT, FISCAL YEAR 1959

Volume.....	billions..	\$23.8
Number of procurement activities.....	millions..	6.7
Type of contracts used (dollars):		
Formal advertising.....	percent..	13.6
Negotiated.....	do.....	85.4
Fixed price 45.6 percent, cost reimbursement.....	do.....	40.9

SUPPLY SYSTEMS

Annual operating cost.....	billions..	\$2
Number of supply items.....	millions..	3.4
Covered storage (worldwide).....	million square feet..	695
Covered storage (continental United States):		

	Area in square feet (millions)	Number of buildings	Cost (millions)
Army.....	296	18,463	\$773
Navy.....	164	10,161	612
Air Force.....	93	6,296	331
Total.....	463	34,920	1,636

SURPLUS PROPERTY

Excess of military needs.....	billions..	\$26.7
Surplus disposal sales.....	do.....	\$10.0
Obsolete aircraft, ships.....	percent..	69
Supply materials.....	do.....	40
Net return on disposal sales.....	do.....	2

Source: Department of Defense.

Mr. WARD. I would be glad, if there are any errors, to correct them. If there are any errors, Secretary McGuire and his people can correct them when they testify tomorrow.

Representative CURTIS. It says, "Source, Department of Defense."

Mr. WARD. Yes. The total procurement was \$23.8 billion. Number of procurement actions, 6.7 million. Then the breakdown on type of contracts which was given this morning. Then it shows surplus, excess and long supply stocks of \$26.7 billion.

Might I say that is much more than either our annual export of goods or our imports.

Representative CURTIS. On that point, may I ask, is it \$150 billion including the \$26.7 billion?

Mr. WARD. Yes.

Representative CURTIS. In other words, of supplies, which are \$47 billion, 40 percent of 26 is roughly what, \$10 billion or \$12 billion? \$12 billion out of \$47 billion are surplus in the supply area, and not talking about obsolete aircraft and ships?

Mr. WARD. That is correct. Congressman, Mr. Newman is going to discuss in considerable detail a recent report that was made by the Office of the Secretary of Defense, Supply and Logistics, and will go into the common areas in great detail when I get through.

Representative CURTIS. So we can ask him those questions.

SURPLUS SALES AT \$10 BILLION ANNUAL RATE

Mr. WARD. Yes. The surplus property sales are estimated—this is acquisition cost at about \$10 billion.

May I say that I called up the people who worked with the War Assets Administration to get the figures on the disposal during the days of War Assets. The Surplus Property Act of 1944 continued until the General Services Act went into effect in 1949, a period of 4½ years. They disposed of personal and real property, \$24.4 billion; or an average rate of \$5 billion a year. The rate we have attained now is approximately twice the average rate under the War Assets Administration.

CURRENT SURPLUS DISPOSALS COMPARED TO WAR ASSETS

May I point out this difference: At that time,—1944-49—the market was very hungry for goods because of the war. We are now increasingly reaching the point where many industries are feeling the impact of the disposition of this material. I have tried to bring what I thought you would be particularly interested in after listening to the discussion this morning.

\$26.7 BILLION IN LONG SUPPLY

According to testimony of the Assistant Secretary of Defense, Supply and Logistics, before the House Appropriations Committee on March 23, 1958, the total of our surplus property in process together with our known excess and long supply was \$26.7 billion, and it costs the DOD \$112.5 million per year to carry \$22.5 billion excess and long supply in inventory. This cost figure is based on the assumption that—

direct costs, storage, accounting, and control of such material approximates one-half of one percent of the inventory value per year.

USE OF RECEIPTS FROM DISPOSALS

More recent statements indicate that the annual disposal may be as high as \$12 billion a year. In order to accelerate the disposal program, the last Congress in the annual military appropriation act, Public Law 86-166, section 611, granted authority for the military to use the receipts from the sale of surplus property to reimburse appropriations for operation and maintenance for all expenses involved in the preparation for disposal and for the disposal of such property. From the data submitted to the Congress, the receipts are expected to be \$260 million.

Representative CURTIS. Will you relate that to the acquisition cost?

Mr. WARD. \$10 billion.

Representative CURTIS. And realizing \$260 million gross, subtract your cost of \$75 million.

Mr. WARD. That is right.

DILEMMA OF FAST DISPOSAL VERSUS IMPACT ON INDUSTRY

The surplus property program is faced with a dilemma. While an accelerated program is desirable to reduce storage and other costs, it is found that some of the disposals of individual items are so large that they have severe impacts on some industries in the opinion of the Commerce Department.

I have here, Mr. Chairman, a letter that the Commerce Department sent to you.

I shall not read it all, but this section is on "Department of Defense, domestic surplus."

Representative CURTIS. Would you give the date for the record?

Mr. WARD. Yes; December 9, 1959. It is addressed to the chairman.

Senator O'MAHONEY. Mr. Chairman, I suggest that the whole letter be put in the record and that Mr. Ward read such parts as he wishes.

The CHAIRMAN. Without objection that will be done.

(The data referred to follow:)

THE SECRETARY OF COMMERCE,
Washington, December 9, 1959.

HON. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.O.

DEAR MR. CHAIRMAN: This is in further reference to your letter of October 2, 1959, which was acknowledged October 8, 1959.

We have now assembled the detailed information requested in your letter. In transmitting this material to you we wish to take the opportunity to describe the duties and responsibilities of the Department of Commerce relative to the various Government surplus disposal programs.

The Business and Defense Services Administration of this Department furnishes information and advice as to certain aspects of disposal problems to Government departments and agencies which are charged by law with disposal responsibilities, involving various classes of property including national stockpile, supplemental stockpile and Defense Production Act inventories and surplus personal property of the Department of Defense and the Atomic Energy Commission. A description of BDSA's responsibilities and functions for each of these programs follows.

NATIONAL STOCKPILE DISPOSALS

The Director of the Office of Civil and Defense Mobilization is responsible for all stockpiling policy and programing under the authority of the Stockpiling Act of 1946, and Reorganization Plan No. 3 of 1953. In making policy determinations with regard to the sale of surplus or obsolescent materials, the Director generally consults with the OCDM Interdepartmental Materials Advisory Committee on which the Department of Commerce has representation in the person of the BDSA member. The General Services Administration has been charged by OCDM with responsibility for developing disposal plans in relation to particular disposals. Agencies concerned are consulted about the feasibility of such plans, the potential impact of the sales on the domestic market and on the interest of producers, processors and consumers. BDSA industry contacts are an important resource in evaluating the acceptability and soundness of such plans.

SUPPLEMENTAL STOCKPILE

Strategic and other material acquired through barter with agricultural surpluses and which are not needed for defense are placed in the supplemental stockpile. Legal restrictions on disposition in a nonemergency period are now identical with those of the national stockpile. However, no disposals have been made from this stockpile nor have they been under consideration.

DEFENSE PRODUCTION ACT (DPA)

Under Executive Order No. 10480, OCDM has been delegated responsibility for administering most of the Defense Production Act activities including the acquisition and sale of strategic materials obtained through the operations of

expansion programs. Under the provisions of the act, these materials are for "Government use or resale." In practice, materials would be sold to the national stockpile or market if needed for defense or held for other disposition in the DPA inventory.

The only legal restriction on resale of materials to industry is that such sales must not be made at less than the current domestic market price. Defense Mobilization Order V-3 and V-7 issued by the Director of ODM (now ODDM) set forth a disposal policy similar to that applied to disposals from the national stockpile in requiring among other things that the sale would not cause serious economic disruption. As in the case of stockpile surpluses, BDSA's knowledge of market situations is called upon in considering ODDM disposal policy determinations and in reviewing the practicalness of USA selling plans.

DEPARTMENT OF DEFENSE (DOD) DOMESTIC SURPLUS

Under an agreement between the DOD and the Department of Commerce, BDSA conducts investigations on request or on BDSA's own initiative in order to ascertain the impact which planned disposals by DOD of significant amounts of domestic surplus property may have on a given segment of industry.

BDSA's role in these disposals is purely advisory and is non-statutory except as it follows naturally from the basic statutory duty of the Department to foster, promote and develop the commerce of the United States. BDSA furnishes the DOD recommendations and advice resulting from such investigations. The DOD may accept or reject BDSA's recommendations. Significant amounts have been defined as being the aggregate of surplus items in a proposed sale where the acquisition costs exceed \$250,000.

ATOMIC ENERGY COMMISSION SURPLUS DISPOSALS

The agreement between the AEC and the Department of Commerce regarding disposal of major surplus property items parallels the DOD-Commerce agreement. That is, the AEC, in advance of each sale provides our staff with auction catalogs, or special communications describing the surplus property in those cases where only a few items are being offered for sale. Notifications include sales to be conducted by sales agents of the AEC. The sales lists are examined by industry experts in BDSA and appropriate recommendations made to the Commission.

FOREIGN EXCESS PROPERTY

The Department's responsibilities with respect to foreign excess property stem from section 402 of the Federal Property and Administrative Services Act of 1949. This section provides that such--

"... property may be disposed of by exchange, lease, or transfer--upon such terms and conditions as the head of the executive agency concerned deems proper, but in no event shall any (such) property be sold without a condition forbidding its importation into the United States unless the Secretary of Agriculture (in the case of any agricultural commodity, food, or cotton or woolen goods) or the Secretary of Commerce (in the case of any other property) determines that the importation of such property would relieve domestic shortages or otherwise be beneficial to the economy of this country."

The Secretary of Commerce is granted no jurisdiction over the disposition of foreign excess property but must determine whether it may be imported into the United States. For this reason, actions taken by BDSA, our delegate agency under this act, on individual applications to import foreign excess property are regarded as outside the scope of your request. Policies and problems respecting importation of foreign excess property have been the subject of hearings in 1958 and 1959 before the Executive and Legislative Reorganization Subcommittee of the House Committee on Government Operations. We are currently engaged in cooperating with the members and staff of that committee in an effort to achieve improved solutions of the numerous problems existing in this field.

The specific answer to your queries are contained in the attached reports submitted by the respective Business and Defense Services Administration Industry Divisions. In general you will note that spaces are left blank where information was not known or not available. In cases where the degree of impact on industry was insignificant no recommendation or action entry has been made on the form. Because of the wide variety of products covered in these studies,

It did not appear practical to summarize them. Rather it was our conclusion that the individual reports as transmitted would be of maximum usefulness to the committee.

In the discussion which follows the words "excess" and "surplus" are used with specialized meanings. The former refers to property which the owning agency no longer needs. Lists of these excess items are prepared periodically and are sent to other Federal agencies who then and for a specified period may acquire needed items thereon in lieu of new procurement. After this screening and when any other efforts to utilize the property in the Federal Government or in a federally endorsed activity are completed, the property is considered "surplus."

On the attached sheets the total quantity listed for an item is not necessarily the volume disposed of as surplus. Some of the listings are the total amounts considered excess. Hence, subsequent to BDSA recommendation certain quantities of an item may be acquired by another agency before disposal as surplus begins.

Two disposal programs are handled somewhat differently from the bulk of the actions described above. These relate to machine tools and vessels of the so-called Liberty type. The following summarizes actions regarding these items.

MACHINE TOOLS

The Department's activities in regard to machine tools take place before and during the period that the tools are on the "excess" lists. The Metalworking Equipment Division of BDSA maintains continuous liaison with the Department of Defense, where most of the excess tools originate. It assists DOD in policy formulations regarding machine tool disposal and independently or as a member of an interagency committee serves as coordinator with the consuming agencies noted below.

During the first 45 days of the excess period, the excess machine tool lists are screened by other military departments and the national industrial equipment reserve for the selection and transfer of needed machine tools. During the second 45 days, other government agencies, including particularly the International Cooperation Administration and the Department of Health, Education and Welfare, screen the lists to obtain required tools for foreign country needs, for schools, and for other uses. At the end of the 90 day screening period, the residue of tools, which consists largely of special purpose, obsolete and worn items, are declared surplus and are disposed of. Whoever the volume of excess tools at a specific location, either a storage site or plant facility warrants, technicians from the Division together with representatives from industry make on-site inspections to facilitate the transfer of needed items to the established programs and minimize the flow to the surplus market.

The effectiveness of this program may be demonstrated by a review of operations during the fiscal year ending June 30, 1959. In that year approximately 25,000 machine tools and related production equipment items were declared excess. Of this number, some 4,000 items consisted of related equipment such as furnaces and welding equipment. An estimated 7,500 machine tools were claimed by the military departments and NIER. Schools of the Nation selected more than 8,000 items. Only about 5,500 items were disposed of as surplus.

LIBERTY TYPE VESSELS

The Maritime Administration initiated a disposal program in the fall of 1957 which contemplated the disposal of 100 or more Liberty type ships. It was the Maritime Administration's policy, and had been for the preceding 8 years, to sell obsolete, damaged and outdated vessels under terms which would require that the vessels not be used as a means of transportation. Thus it was required that the purchaser completely dismember and scrap the hull of the vessel. However, no such provision was made regarding the machinery, equipment or auxiliaries of the vessels. A considerable quantity of this machinery found its way into the commercial used machinery market. Fears that the stepped-up program would disrupt the market resulted in inquiries from manufacturers and distributors of marine machinery and equipment. The Maritime Administration requested BDSA in May of 1958 to study and report on the possible impact of the Liberty ship disposal program if it were carried out at the rate of approximately 10 ships each month. After studying the problem, BDSA advised in July 1958 that if disposition of the 100 vessels were so prorated and if in addi-

tion sales would be from all 7 reserve fleet installations and not all from one installation, it was felt that there would be a minimum impact upon the U.S. economy.

We trust you will find these data helpful in your study. We shall be pleased to amplify this presentation either in writing or oral testimony as you may request.

Sincerely yours,

PHILIP A. RAY,
Acting Secretary of Commerce.

THE ASSISTANT SECRETARY OF COMMERCE,
Washington, January 27, 1960.

Hon. PAUL H. DOUGLAS,
*Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: In answer to a telephone request of Mr. Ray Ward of your staff, and supplementing the letter of Acting Secretary of Commerce, Mr. Phillip A. Ray, to you on December 9, 1959, we are reporting below on three additional surplus property items.

DIESEL ENGINES

During the fiscal years 1957, 1958 and 1959 covered by our December 9, 1959, report, BDSA did not process any separate impact inquiries on diesel engines. However, in the case involving 127 naval vessels, listed on sheet 29 of our report under the Power Equipment Division, primary concern was with diesel engines. An Industry Advisory Committee composed of diesel engine manufacturers was convened, and subsequently a task force which included DOD representatives met to study the economic impact of the proposed ship disposals on the diesel engine industry. These meetings resulted in a BDSA recommendation to the Department of Defense that disposals should be made at the rate of 10 to 13 ships per month. The DOD accepted this recommendation.

During the months of July and August of 1959 the Bureau of Supplies and Accounts of the Department of the Navy submitted a number of market impact requests to BDSA regarding diesel engines and related equipment. This property was declared surplus as a result of deactivating the Naval Supply Depot at Scotin, N.Y. Since the requests were received subsequent to the June 30, 1959, cutoff date of our earlier report, they were not listed therein. We are attaching hereto reports on them in the same form as our earlier transmittal.

SMALL ARMS

The Sporting Arms and Ammunition Manufacturers' Institute advised the Secretaries of Commerce and Defense on September 15, 1958, that the U.S. domestic firearms industry was being adversely affected by the sale of surplus domestic and importation of foreign military surplus rifles. The Department of Defense agreed to a partial suspension of sales of DOD domestic surplus pending further study of the problem. The suspension remains in effect at the present time. Exempt are limited quantities sold through military retail sales outlets, as well as sales to law enforcement agencies of the several States, municipalities and instrumentalities thereof, and to persons certified by the National Rifle Association through the Director of Civilian Marksmanship program.

An Industry Advisory Committee was convened and met on October 29, 1958, following which BDSA undertook a detailed impact study. The data collection

program from manufacturers included statistics of production and sales for the years 1954 through 1958 for center-fire rifles, rimfire (.22 caliber) rifles, shot-guns, sidearms and ammunition. Figures were also obtained covering number and wages of employees, and research and development expenditures. Import figures and military sales, obtained from other sources, were also included in the BDSA study. The enclosed pamphlet "The United States Small Arms Industry 1954-58" is a report on that study.

On June 29, 1959, six members of the industry filed a section 8 petition with the Office of Civil and Defense Mobilization asking for relief in the form of quotas against the importation of surplus foreign military rifles. In answer to a request to the Secretary of Commerce, our complete impact study findings were furnished to OGD. BDSA's recommendation to the Department of Defense on disposal of the domestic surplus has not as yet been made.

TEXTILES

During the period covered by our report, fiscal years 1957-59, BDSA did not make any impact studies regarding disposal of surplus textiles. In an excess property listing of the Department of Defense in July of 1958 approximately 8 million yards of duck were listed as excess to the Quartermaster General's requirements. The Department of Health, Education and Welfare was advised and subsequently we learned that that Department acquired all of this material through the donation program. We have since learned that additional quantities of excess duck were acquired by the Department of Health, Education, and Welfare during fiscal years 1959 and 1960, also through the donation program.

If we can be of further service to you, please let us know.

Sincerely yours,

CARL F. OECHELE,
Assistant Secretary of Commerce.

Mr. WARD (reading) :

Department of Defense, Domestic Surplus. Under an agreement between the DOD and the Department of Commerce, BDSA conducts investigations on request or on BDSA's own initiative in order to ascertain the impact which planned disposals by DOD of significant amounts of domestic surplus property may have on a given segment of industry.

This is significant.

DEPARTMENT OF COMMERCE IN ADVISORY ROLE

BDSA's role in these disposals is purely advisory, and is non-statutory except as it follows naturally from the basic statutory duty of the Department to foster, promote and develop the commerce of the United States. BDSA furnishes the DOD recommendations and advice resulting from such investigations. The Department of Defense may accept or reject BDSA's recommendations. Significant amounts have been defined as being the aggregate of surplus items in a proposed sale where the acquisition cost exceeds \$250,000.

We asked the Commerce Department to give us the determination sheets that they had when they received calls from the Department of Defense on the disposal of some of these large items that might have impact or severe impacts on the economy.

(The following example was later received for the record:)

(Also see pp. 516-526.)

BDSA POWER EQUIPMENT DIVISION

Surplus property actions, fiscal years 1957-59

Nature of items and program ¹	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BDSA's recommendation or disposition	Degree of impact on industry (none, slight, moderate, severe)	BDSA recommendation ²	Action, if known
Deactivation Naval Supply Depot, Scotia, N.Y.:								
Steam turbine generator sets.....	8	\$262,000	Navy.....	Aug. 5, 1959	Aug. 11, 1959	Slight.....	Competitive bid sale.	
Diesel engine generator sets.....	7	315,000	do.....	do.....	do.....	do.....	do.....	
Do.....	8	682,000	do.....	do.....	do.....	do.....	do.....	
Electric generators.....	15	750,000	do.....	July 28, 1959	Aug. 18, 1959	None.....	do.....	
Diesel engines, main propulsion.....	4	277,290	do.....	Aug. 3, 1959	Aug. 29, 1959	Slight.....	do.....	
Steam turbine main propulsion high and low pressure.	152	11,194,000	do.....	July 15, 1959	Aug. 28, 1959	Moderate.....	do.....	Sold.

¹ Stockpile, DOD, AEC, DPA, or other program.² If recommendation cannot be conveniently summarized in this column, attach continuation sheet.

Representative CURRIS. May I interrupt just for clarification.

You say large items, you mean singly, like a ship, or do you mean a large quantity, like barber clippers, for example?

Mr. WARD. It would be by definition. They say "significant amounts" are defined as being "the aggregate of surplus items in proposed sale where the acquisition cost exceeds \$250,000." So I presume that applies to all types of property.

Representative CURRIS. It could be quantity or just a single one.

Mr. WARD. I think the significant part of that statement is that the Department of Commerce, which has the duty and responsibility to aid and foster commerce, must be in that sort of an advisory capacity when actions are taking place that vitally affect the economy of the country or segments of the economy.

These sheets which I hold involve surplus property actions 1957 to 1959. This first one covers "Construction machinery, from the DOD, the cost, \$3 million." This is a single disposal that they have in mind. "Requesting agency DOD, date received, April 1957. Date of BDSA recommendation for disposition, 4-57. Degree of impact on industry." In this case they say "severe." Their recommendation is to reduce it. "Action if known—reduced one-third." We don't know what happened to the other two-thirds.

Representative CURRIS. You mean reduce one-third for that year and schedule the disposition?

Mr. WARD. I assume so. I don't know whether the Department of Defense put the other one-third on the market later or not.

Representative CURRIS. I know that situation exists. I remember a constituent who manufactured stoves complaining about the fact that they were going to put on the market, I don't know how many, thousands of stoves that they had bought. Their complaint was that would disrupt the marketing of stoves.

I don't know what happened. At least that was a matter that went before Commerce. That is illustrative of the point you are making.

Mr. WARD. That is correct, Congressman.

The next one, \$2.5 million, they say the impact would be severe. Reduced to half. The next is one and a \$0.5 million, in January 1958, severe impact, postpone, and it was postponed. So on down the line with that class of material.

Now they also list power cranes, shovels, tractors, earth moving equipment, roller, ditchers, and repair and replacement parts and so on with a great many of these which I shall not read unless you so desire.

EVIDENCE OF CONCURRENT BUYING AND SELLING

The CHAIRMAN. Mr. Ward, there is one question I would like to ask. At the same time the Defense Department is disposing of these items do you have any evidence to indicate that they were buying substantially similar items in the open market?

Mr. WARD. I don't have. I have not gone into that.

Mr. NEWMAN. I have when I give my presentation.

Mr. WARD. I do have this letter and material which just happened to come in to me the other day from the Callahan Engineering Co., Springfield, Ill. Congressman Peter Mack's office sent this over when they heard about these hearings. It says:

Hardly a week goes by that we do not receive at least one copy of a bulletin in the mail from an individual corporation offering to sell surplus Government equipment. The copy we have just received we include with this letter. In view of the present high cost of military preparedness in the United States, I feel it is about time that Congress established a clearinghouse for all surplus equipment, allow no agency of the Federal Government to make purchase without first checking through the clearinghouse to see if another branch of the Government does not have it on a surplus basis. I feel it is certainly unfair to the taxpayers of the United States that all this Government surplus equipment is put up for such sales when I know as well as you know that various departments of Government are purchasing this same equipment new.

How about a little help to the taxpayers in this area by urging Congress to look into a plan whereby all purchases must clear and all such surplus must clear in order to utilize this equipment instead of this extreme waste which exists now by selling equipment 10 cents on the dollar of what the Government paid for it and the Government purchasing new the same type of equipment at the same time.

Here also is a letter of Jan. 15, 1960, from a large manufacturer of hand tools, Fayette R. Plumb, Inc., of Philadelphia, Pa.
(The letter referred to follows:)

FAYETTE R. PLUMB, INC.,
Philadelphia, Pa., January 15, 1960.

JOINT ECONOMIC COMMITTEE,
The Capitol, Washington, D.C.
(Attention of Mr. Ray Ward).

DEAR SIR: We understand you are studying the subject of a coordinated purchasing policy covering articles of common usage required by various divisions of the U.S. Government. Our company has enjoyed business with many and various agencies of the Government over a long period of years. While we are at all times grateful for the business, we sometimes wince at the apparent waste caused by various agencies purchasing similar articles at approximately the same time. This division of volume increases costs. Another waste results from one branch of the Government purchasing an item when another branch has a surplus.

These purchasing practices seem inefficient and extravagant. If a single agency had the complete authority for purchasing tools such as we make, we feel that much of this waste could be eliminated. Our company is over 100 years old and our products comprise hammers, hatchets, axes, sledges, and files. All of these products are staple items of general civilian use. These same tools are also used by the military services and have in the past been purchased separately by various military agencies as well as Government civilian agencies such as the U.S. Treasury and General Services Administration. Such a practice has resulted in the Government dividing their volume into costly small orders thus resulting in a higher total cost than volume purchasing could procure.

In our opinion, coordinated purchasing by a single agency of the Government covering staple tools such as we manufacture would be a step in the right direction toward a desired reduction in the cost to Government.

Yours truly,

FRANK P. GREEN,
Executive Vice President.

GARBAGE PAIL TECHNIQUE

Representative CURTIS. Mr. Chairman, I wonder if I could make this observation to follow the thread. We are making the point at this stage of the impact on our economy of the disposition of these vast surpluses. But at the same time we can through what I have described as the garbage pail technique ask why is this in the garbage pail. Look back to original procurement practice to find out what is wrong in our procurement system.

When we are dealing in sums of \$26 billion of surplus it seems to me very obvious that unless there is good explanation for these amounts of surplus, our procurement practices, if tightened up, could be saving billions of dollars a year. I think we could use that as a premise.

67 MILLION YARDS OF SURPLUS CANVAS

Mr. WARD. If I may give you one more illustration, then I should like to go into the background of what you are talking about, Congressman Curtis. I have here a summary sheet on the disposition of surplus cotton duck.

Representative CURTIS. Cotton duck?

Mr. WARD. Canvas. Here are samples of the various kinds of canvas. An April 1959 declaration of canvas was 10 million yards, Webbing, 17 million yards; tape, 670,000 yards; and so on down. There were three batches of canvas that totaled 66,924,450 yards. I computed that would be about 40,000 miles.

The CHAIRMAN. These are excess stocks.

Mr. WARD. Excess stocks to the military needs. I have seen this canvas all over the United States in the surplus property depots of the State agencies where they distribute it to schools and hospitals who make very good use of it. It is a wonderful thing that they can get it. They need it. I looked on many and many a roll of it and it was all purchased in 1950 or 1951 during the Korean emergency. But it is nearly all in excellent condition.

The CHAIRMAN. The Defense Department could say that in 1950-51 that the Korean struggle would be isolated and there was an ever-present danger that it would expand into another world war. I think they could properly say they wanted to be prepared for that. Is there any answer to that defense?

Mr. WARD. I don't know just what the defense is, Senator Douglas, except that probably bad weather coming on, or something like that, and they wanted to be sure they had enough.

IMPACT ON MARKET WHEN CANVAS WAS PROCURED

I do know that we were having hearings at about the same time with the Bonner committee. Congressman Curtis will remember this. We were told by the Under Secretary of the Army, Mr. Alexander at the time, what an effort it was to get the canvas that they needed. It was necessary to convert a good many of the manufacturers of carpet at that time. I think you will remember that impact on the market at that time made the price of carpeting go way up. They were undoubtedly producing canvas at the request of the military.

The CHAIRMAN. Mr. Ward, do you have any evidence to indicate that the Defense Department with these huge stocks of canvas on hand has recently been placing orders for more canvas.

Mr. WARD. I don't know of any cases. It has just been impossible to check all of the records as far as our limited staff is concerned, Senator. However, I find that some Federal agencies wanted some of the canvas and could not get it since it would not be transferred to

¹ See also p. 77, pt. 4, Department of Defense Appropriation Hearings, H.R. 1961.

them without payment under stock fund regulations. So they didn't get it. Usually if an agency needs something they can find the funds to go and buy it.

USE OF INDUSTRIAL DISTRIBUTION FACILITIES

Representative CURTIS. To again get to the canvas as an example, because these are only examples and we are not using them for anything more, there could be that argument. It is important for us to go behind to see whether that is a specious argument. Of course on its face is obvious that they would have to buy more than they actually know they were going to use. There are several ways of being ready with supplies. You don't actually have to have it in warehouses. If we have the plant capacity to turn out canvas as we need it, there is no sense of turning it out and warehousing it. So, in analyzing this problem, we must not just stop at the point where we think we might need so many yards of canvas. It has to be scheduled out. I think one of our witnesses, if I am not mistaken, is going to go into this method used in industry. Open end purchase, I believe it is called. Am I correct in that term?

Mr. WARD. Yes. Open end contracts.

Representative CURTIS. Open end contracts. Where some big company needs a lot of boots, they don't buy them all in one month. They allow the manufacturer to schedule the purchase over a couple of years.

May I ask this question: The Military Establishment does not use that open end purchase technique, does it?

Mr. WARD. Yes, I believe it does. They can tell you the extent that it is done.

Representative CURTIS. Let us get back to our canvas. Did they do it in the canvas case?

Mr. WARD. I do not know what the nature of these contracts were. We were looking at it from the standpoint of the impact on the economy. We know from previous hearings that the procurement had a severe impact on the carpet industry and textile industry, and the disposal of surplus has an impact now. The webbing is listed as 91 million yards. That is about 54,000 miles. About 29 million yards of tape, which is about 17,000 miles. So we have total for canvas, webbing and tape of about 111,000 miles of this material if you hook it up end to end. It is quite a sizable amount.

We asked the Commerce Department with respect to this what recommendations they had made, and we have not received that report.² When the data are received, it will be placed in the record. I don't know whether that part of the canvas not taken by the schools, hospitals, and civil defense will be sold. In some cases property is designated for sale overseas only.

Representative CURTIS. I see what you are getting at. You are limiting your presentation on this to illustrate the impact on the economy at the time of purchase and now again at the time of disposal and we will get into these other things later.

² See pp. 69-74.

One point on this disposition. Even disposing of sizable amounts through our hospitals and schools, and so forth, which I am very happy we can do, even there it would affect the economy, would it not, because if they were going to purchase, normal channels of trade are disrupted.

Mr. WARD. In most cases schools and hospitals haven't the money to go to the market. That is one reason industry favors the "Donable program." It is necessary that volumes like we have mentioned be referred to the Commerce Department where they are supposed to have qualified industry advisory groups who know what the situation may be in the particular industries and can give advice as to what best to do with this material.

Representative CURRIS. One other detail, if I may, on disposition. I thought the general law said that these dispositions were to be turned over to GSA. However, GSA in many instances refers it back to the Military Establishment for disposition. How would this canvas be handled?

Mr. WARD. Congressman, it works like this: Under the law, Public Law 152, if a particular agency has something that it does not need that is excess property. The Department of Defense makes these large composite excess lists once a month. These are lists of property excess to the individual agencies in the Department of Defense. The lists are circulated to all DOD agencies in an attempt to place the property elsewhere within the Department of Defense. If there is no use for it, the lists go to General Services Administration.

GSA tries to dispose of it to other Federal agencies. Maybe to Agriculture, Interior, State, or some other. If no one has any need in the Federal Government whatsoever, the property become "surplus property" to the United States. Then, under existing law, if it could be used for schools, hospitals or civil defense, it is turned over to qualified recipients by the Department of Health, Education, and Welfare.

Under the law, GSA has the authority over surplus disposal. They have, however, delegated this authority to DOD for other than classes of common property known as reportable property.

Representative CURRIS. GSA is under the law, I thought, the responsible agency for this process. As I understand this practice, they actually send some of it back to the Military Establishment and the military itself handles the sale, is that correct?

Mr. WARD. You were not here this morning. Senator Douglas questioned Mr. Floete about that. That is correct. Under the act the authority for the disposal of surplus property rests with the GSA.

Incidentally, at the time the act was being considered up here, the military people said they wanted it to be that way. They wanted to look forward, and not backward. They wanted to look toward the development of modern things and not be bothered with a civilian disposal job. However, in all fairness to everyone concerned, General Services has not been equipped with the staff to do this kind of job and has delegated its authority to DOD for the bulk of the disposal job.

Representative CURTIS. I am really driving home back to the point. If this canvas were turned back to the military once it was found to be surplus, and they actually are going to handle the disposition, then

the Military Establishment has to clear it through the Department of Commerce rather than the GSA. That is what I am really trying to get to. Is that correct?

Mr. WARD. That is my understanding from the letter from the Department of Commerce. They negotiate directly with the military in connection with those impact disposals.

If I may for a moment, I would like to go into the congressional efforts to improve supply management. Secretary Stimpson had said that during World War II it took 100 committees to bridge the gap between the Army and the Navy. With the creation of the Air Force as an independent agency, to bridge the various gaps that now exist there are something like 557 boards, committees, councils, groups, and so forth. Here is a list of them. It shows the geometrical development that takes place when you add another unit to what you already have.

DEPARTMENT OF DEFENSE BOARDS, COMMITTEES, COUNCILS AND GROUPS IN OPERATION BETWEEN JULY 1, 1958 AND MAY 31, 1959

OFFICE OF THE SECRETARY OF DEFENSE

- Immediate Office of the Secretary: DOD Concessions Committee.
 Assistant Secretary of Defense (Comptroller):
 Contract Finance Committee.
 Committee on Defense Participation in Joint Accounting Improvement Program.
- Assistant Secretary of Defense (Health and Medical):
 American Red Cross Liaison Group.
 Interdepartmental Committee on National Blood Program Research.
 DOD Ad Hoc Blood Program Committee.
 Civilian Health and Medical Advisory Council.
 DOD Dental Advisory Committee.
 Dependents' Medical Care Advisory Committee.
 Phase III Emergency Medical Care Panel.
 Federal Council on Medical Education for National Defense.
 Committee on Standardization of Medical Forms, Recording and Reporting Procedures.
 Committee on Procurement and Utilization of Medical Service Personnel.
 Interdepartmental Committee on Nutrition for National Defense.
 Ad Hoc Committee on Status of Veterinary Services in the Armed Forces.
- Assistant Secretary of Defense (Manpower, Personnel and Reserved):
 Alcoholic Beverages Continuing Committee.
 Armed Forces Chaplains Board.
 DOD Committee on Censorship Planning.
 Civilian Advisory Council.
 Defense Advisory Committee on Women in the Services.
 Defense Advisory Committee on Education in the Armed Forces.
 DOD Emergency Planning Committee.
 Armed Forces Examining Stations Policy Board.
 FRASCO-DOD Board.
 Industrial Personnel Security Hearing Boards (New York, Chicago and San Francisco).
 Industrial Personnel Security Review Board.
 Industrial Personnel Security Screening Board.
 DOD Life Insurance Board.
 Manpower and Personnel Council.
 Military Advisory Council.
 Armed Services People-to-People Committee.
 DOD Ad Hoc Committee on "U.S. Personnel Overseas."
 Reserve Forces Policy Board.
 Advisory Panel on ROTC Affairs.
 Ad Hoc Group on ROTC.
 Industry Advisory Committee on Safeguarding Classified Information.

- Assistant Secretary of Defense (Manpower, Personnel, and Reserved)—Con.
 Interservice Working Group on Consolidation of Certain Security Operations.
 DOD Separations Committee.
 Joint Committee to Evaluate Methods of Speed Writing Submitted to All Services.
 DOD Committee on International Sports Competitions.
 Uniformed Services Contingency Option Act Committee.
- Assistant Secretary of Defense (Properties and Installations):
 Family Housing Liaison Group.
 Housing, Ad Hoc Committee on Capehart.
 National Industrial Reserve Review Committee.
 Real Property Inventory Committee.
 State Reserve Forces Facilities Board (52).
- Assistant Secretary of Defense (Public Affairs): Defense Public Affairs Council.
 Director of Defense Research and Engineering:
- Defense Science Board.
 - Research and Engineering Policy Council.
 - Scientific Advisory Committee for Ballistic Missiles.
 - OSD Ballistic Missile Committee.
 - R. & E. Advisory Panel on Aeronautics:
 - Steering Group of the Advisory Panel.
 - Ad Hoc Group on Basic Problems in Aeronautics.
 - Ad Hoc Group for the Evaluation of Bomarc 1M-90B.
 - Ad Hoc Group for the Application of Manned Aircraft and Guided Missiles to Limited War.
 - DOD-Federal Aviation Advisory Committee.
 - R. & E. Coordinating Committee on Atomic Energy.
 - Technical Advisory Panel on Atomic Energy.
 - Ad Hoc Advisory Panel on Naval Nuclear Propulsion.
 - R. & E. Advisory Panel on Biological and Chemical Warfare.
 - R. & E. Advisory Panel on Electronics.
 - Advisory Group on Electronic Warfare.
 - Advisory Group on Electron Tubes.
 - Advisory Group on Electronic Parts.
 - Advisory Group on Reliability of Electronic Equipment.
 - Advisory Group on Radar.
 - Ad Hoc Study on Parts Specifications Management and Reliability.
 - DOD COMINT/COMSEC/ELINT Advisory Group to the DDR & E.
 - United States-United Kingdom-Canada Subcommittee for Non-Atomic Military Research and Development, Combined Policy Committee.
 - Mutual Weapons Development Program Advisory Group.
 - R. & E. Group on Ground Support Equipment for Guided Missiles.
 - R. & E. Advisory Panel on Fuels and Lubricants:
 - Panel Steering Group.
 - Working Group on Engine Fuels.
 - Working Group on Lubricants.
 - Working Group on Propellants.
 - Working Group on Distribution Methods and Equipment.
 - Joint Working Group on Special Fuels.
 - R. & E. Coordinating Committee on Materials.
 - R. & E. Coordinating Committee on Ordnance, Transport, and Supply.
 - Advisory Panel on Ordnance, Transport, and Supply:
 - Panel Steering Group.
 - Ad Hoc Group on Torpedo Research and Development.
 - Ad Hoc Group on Land Mine Clearance.
 - Ad Hoc Group on Explosives.
 - R. & E. Coordinating Committee on Sciences.
 - R. & E. Advisory Panel on Medical Sciences.
 - R. & E. Advisory Panel on General Sciences.
 - R. & E. Advisory Panel on Psychology and Social Sciences.
 - Materials Advisory Board.
 - MAB Committee on High Strength Steels.
 - MAB Ad Hoc Committee on Thermal Control of Space Vehicles.
 - MAB Committee on Manganese.
 - MAB Committee on Plasma Phenomena.

- Director of Defense Research and Engineering--Continued
- MAB Advisory Board on QM R. & D. Committee on Fundamental Considerations in Personnel Armor Materials.
 - MAB Committee on High Temperature Bearings.
 - MAB Committee on Dissemination of Technological Information.
 - MAB Committee on Composite Structural Materials.
 - MAB Committee on Design Criteria.
 - MAB Committee on Thermal Protection Systems.
 - MAB Committee on Titanium Alloy Sheet Rolling Program.
 - MAB Committee on Refractory Metals.
 - MAB Committee on Materials for Large Solid Propellant Rocket Motors.
 - Committee on Review of DOD Materials R. & D.
 - MAB Committee on Development of Manufacturing Process for Aircraft Materials.
- Assistant Secretary of Defense (Supply and Logistics) :
- Material Secretaries Council.
 - Air Priorities Task Group, DOD-Department of Commerce.
 - Diesel Development Study Committee.
 - Executive Directorate of APRA (Aircraft Production Resources Agency).
 - Aircraft Committee, Joint.
 - Executive Directorate of EPRA (Electronic Production Resources Agency).
 - Joint Storage and Materials Handling Working Group.
 - Environment Criteria Standards, Working Group on Engineers Planning for Development of Necessary.
 - Joint Cost Accounting Working Group.
 - Working Group on Proposed Plan for Concurrent Screening of Excess Personal Property.
 - AFSSC Air Working Group.
 - Armed Forces Supply Support Council.
 - Armed Services Procurement Regulation Committee.
 - Commodity Coordination Groups (CCG's).
 - Area Coordination Groups (ACG's).
 - Maintenance Policy Special Project Group for Initial Provisioning.
 - Joint DOD-GSA IAC on Disposal of Surplus Property.
 - Household Goods IAC.
 - DOD IAC for Internal Combustion Engines.
 - DOD IAC for Power Cranes and Shovels.
 - DOD IAC for Refrigeration and Air Conditioning.
 - DOD Small Business IAC.
 - DOD Standard Drawing Practice Committee.
- General Counsel :
- OSD Security Review Board.
 - Interagency Technical Property Committee for Defense.
- Assistant to the Secretary (Atomic Energy) :
- Military Liaison Committee to the Atomic Energy Commission.
 - Study Group on Organization for Future Test Operations.
 - Joint Board on Future Storage of Atomic Weapons.
- Joint Chiefs of Staff :
- Joint Strategic Survey Council.
 - Military Communications-Electronics Board (MCEB).
- Defense Atomic Support Agency :
- Panel on Radiological Instruments.
 - Phase 2 Feasibility Study Group for the Pershing Missile.
 - Reconvened Phase 2 Feasibility Study Group of Warheads for the Pershing Missile.
 - Joint Phase 2 Feasibility Study Group of Warheads for the Battle Group Atomic Delivery Weapon System (Davy Crockett XM-28, XM-20) and Air Defense Guided Missile (Falcon GAR-11).
 - Ad Hoc Committee on Environmental Sensing Device for Davy Crockett-Falcon Warhead.
 - Phase 2 Feasibility Study on Hawk Missile System and GAR-9 Guided Aircraft Rocket (F108-Application).
 - Phase 2 Feasibility Study Group to Consider Warheads for the Special Atomic Demolition Munition.
 - Joint AE-DOD Feasibility Study Group of a Warhead for the Sergeant Missile.

Defense Atomic Support Agency—Continued
 Reconvened Phase 2 Feasibility Study Group for Warheads for ASROC
 with Considerations of Adaption to Little Lulu (Lightweight Multipurpose
 Bomb) and RIG-A (Rifle Grenade Depth Charge).
 Joint Special Weapons Publication Board.
 Future Weapons Effects Requirements Board.
 Advanced Research Projects Agency:
 Space Flight Facilities Board.
 Technical Advisory Group—Communication Satellites.

DEPARTMENT OF THE ARMY

Public advisory committees:

National Board for the Promotion of Rifle Practice.
 Army Scientific Advisory Committee on Materials.
 Army Scientific Advisory Committee on Physics.
 American Vocational Association Armed Forces Committee.
 Signal Corps Quartz Crystal Integration Committee.
 Army Scientific Advisory Panel.
 Secretary's Advisory Committee on Civilian Personnel Management.
 Secretary of the Army's Historical Advisory Committee.
 QM IAC on Plastic Films and Sheeting.
 QM IAC on Insulated Rubber Footwear.
 QM IAC on Industrial Storage Batteries, Lead-Acid.
 QM IAC on Woolen and Worsted Fabrics.
 QM IAC on Underwear.
 QM IAC on Weaving and Finishing of Duck.
 QM IAC on Slide Fasteners.
 QM IAC on Shoe Laces.
 QM IAC on Military Cotton Clothing.
 QM IAC on Leather Footwear.
 QM IAC on Leather and Fabric Gloves.
 QM IAC on Hair Cloths and Inner Lining.
 QM IAC on Caps.
 QM IAC on Flags.
 QM IAC on Buttons (Thermosetting Plastic).
 QM IAC on Canvas Products.
 QM IAC on Coated Fabric-Rainwear.
 QM IAC on Coated Fabrics.
 QM IAC on Feathers and Down.
 QM IAC on Glove Leather.
 QM IAC on Heraldic Items (Textile and Embroidery).
 QM IAC on Lasts.
 QM IAC on Leather Welting.
 QM IAC on Lightweight Cotton and Synthetic Fabrics.
 QM IAC on Map Paper.
 QM IAC on Men's Seamless Hosiery.
 QM IAC on Narrow Fabrics.
 QM IAC on Rubber Gloves.
 QM IAC on Rubber Heels and Soles.
 QM IAC on Sole Leather.
 QM IAC on Steel Shanks.
 QM IAC on Thread.
 QM IAC on Upper Leather.
 QM on IAC on Wool Blankets.
 NAS-NRC Advisory Board on QM R. and D., Committee on Stress
 Physiology.
 NAS-NRC Advisory Board on QM R. and D., Committee on Psychology.
 NAS-NRC Advisory Board on QM R. and D., Committee on Development of
 Substitutes for Waterfowl Feathers and Down.
 NAS-NRC Advisory Board on QM R. and D., Committee on Climatology
 and Geography.
 NAS-NRC Advisory Board on QM R. and D., Committee on Aerial Delivery
 Testing Equipment and Procedures.
 NAS-NRC Advisory Board on QM R. and D., Committee on Aerial Delivery
 Research.
 NAS-NRC Advisory Board on QM R. and D., Committee on Pioneering
 Research.

Public advisory committees—Continued

- NAS-NRC Advisory Board on QM R. and D., Committee on the National Index of Fungus Cultures.
- NAS-NRC Advisory Board on QM R. and D., Committee on Mechanical Engineering.
- NAS-NRC Advisory Board on QM R. and D., Committee on Chemicals.
- NAS-NRC Advisory Board on QM R. and D., Committee on Hand Functioning and Handwear.
- NAS-NRC Advisory Board on QM R. and D., Committee on Foot Protection.
- NAS-NRC Advisory Board on QM R. and D., Committee on Textile Dyeing and Finishing.
- NAS-NRC Advisory Board on QM R. and D., Committee on Textile Fabrics.
- NAS-NRC Advisory Board on QM R. and D., Committee on Personnel Armor.
- NAS-NRC Advisory Board on QM R. and D., Committee on Heat Attenuation in Clothing Systems.
- NAS-NRC Advisory Board on QM R. and D., Committee on Paper-Based Materials.
- NAS-NRC Advisory Board on QM R. and D., Committee on Plastics and Elastomers.
- NAS-NRC Advisory Board on QM R. and D., Committee on Operational Mathematics.
- QM IAC on Military Petroleum Pipe Lines.
- QM IAC on Crackers, Biscuits, and Cookies.
- QM IAC on Canned Meat.
- QM IAC on Dehydration of Vegetables.
- QM IAC on Flexible Containers for Processed Foods.
- QM IAC on Prepared Bakery Mixes.
- QM IAC on Fat Spreads.
- QM IAC on Active Dry Yeast.
- QM IAC on Canned Steamed Puddings.
- QM IAC on Packaging of Soaps.
- QM IAC on Sensory Testing Methods.
- QM IAC on Critical Storage Temperatures of Frozen Foods.
- QM IAC on Instant Coffee.
- QM IAC on Fresh Pastries.
- QM IAC on Vitamins.
- QM IAC on Fiberboard Containers.
- QM IAC on Frankfurters.
- QM IAC on Milk Products.
- QM IAC on Dehydrated Meat.
- QM IAC on Radiation Preservation of Foods.
- QM IAC on Mayonnaisse and Salad Dressing.
- QM IAC on Dry Milk.
- QM IAC on Canned Fluid Foods.
- NRC Committee on Food Stability.
- NRC Committee on Microbiology.
- NRC Committee on Foods.
- NRC Committee on Animal Products.
- NRC Committee on Cereal and Baked Products.
- NRC Committee on Radiation Preservation of Food.
- NRC Committee on Nutrition.
- NRC Committee on Experimental Cookery.
- NRC Committee on Fruit and Vegetable Products.
- NRC Committee on Subsistence Packaging.
- NRC Committee on Container Development.
- NRC Committee on Food Acceptance.
- NRC Committee on Dairy, Oil, and Fat Products.
- NRC Committee on High Level Radiation Dosimetry.
- QM IAC on Knitted Handwear.
- QM IAC on Woolen and Worsted Clothing (Procurement and Production).
- Army Advisory Panel on ROTC Affairs.
- Advisory Panel for Military Traffic Management.
- Chief Signal Officer's R. and D. Advisory Council.
- U.S. Army Electronic Proving Ground Scientific Advisory Committee.
- Chemical Corps IAC.
- U.S. Army Chemical Corps Advisory Council.
- Committee (American Chemical Society), Advisory to the US Army Chemical Corps.

Public advisory committees—Continued

Society of American Bacteriologists Committee, Advisory to the U.S. Army Chemical Corps.
Task Force on Columblum and Tantalum of the Panel on Methods of Analysis of the Metallurgical Advisory Committee on Titanium.
Task Force on Oxygen of the Panel on Methods of Analysis on the Metallurgical Advisory Committee on Titanium.
Specifications Subcommittee of the Metallurgical Advisory Committee on Cast Armor.
Ordnance Technical Advisory Committee (Rubber).
Ordnance Advisory Bogle Roller Committee.
Ordnance Advisory Tire and Rim Committee.
Ordnance Advisory Tire Reconditioning Committee.
Ordnance Advisory Tank Track Engineering Committee.
Ordnance Advisory Committee on the Welding of Armor.
Ordnance Torsion Bar Advisory Committee.
Ordnance Scientific Advisory Committee to Land Locomotion Research.
Ordnance Scientific Advisory Committee.
Ballistic Research Laboratories Scientific Advisory Committee.
Army Mathematics Steering Committee.
Scientific Advisory Committee—Rock Island Arsenal.
Scientific Advisory Committee—Diamond Ordnance Fuse Laboratories.
Subcommittee on the Quantification of Wellness.
Subcommittee on the Classification of Physical Impairments.
Advisory Editorial Board on the History of Surgery.
Advisory Editorial Board on the History of Internal Medicine.
Advisory Editorial Board on the History of Preventive Medicine.
Advisory Editorial Board on the History of Supply.
Advisory Editorial Board for the History of the Medical Service Corps.
Advisory Editorial Board for the History of the U.S. Army Medical Specialist Corps.
Advisory Editorial Board on the History of Radiology.
Advisory Editorial Board on the History of Neuropsychiatry.
Advisory Editorial Board on the History of Training.
Advisory Committee to the Surgeon General on Psychophysiology.
Dental Advisory Committee to the Office of Dependents' Medical Care.
Advisory Committee on Environmental Medicine.
Advisory Committee on Nutrition.
Advisory Committee on Metabolism.
Dental Research Advisory Committee.
Integration Committee on Ammunition Loading.
Integration Committee on Small Arms Ammunition.
Integration Committee on Cast Armor for Track-Layaway Type.
Integration Committee on Track for Track-Layaway Vehicles.
Integration Committee on Medium and Heavy Tank and Allied Combat Vehicles.
Integration Committee on Light Tanks and Allied Combat Vehicles.
Integration Committee on Heavy Trucks.
Integration Committee on Light and Medium Trucks.
Integration Committee on Propellants and Explosives.
Arlington Memorial Amphitheater Commission.
Armed Services Explosives Safety Board.
Army and Air Force Clemency and Parole Board.
Army Ballistic Missiles Committee.
Army Board for the Correction of Military Records.
Army Contract Adjustment Board.
Army Contract Appeals Board, Armed Services Board of Contract Appeals.
Army Council of Review Boards—Component Boards.
Army Policy Council.
Boards of Directors, Department of Army Welfare Fund.
Civilian Lawyer Career Committee.
Committee of Deputies.
Department of Army Executive Salary Committee.
Department of Army Grievance and Employment Policy Board.
Executive and Professional Development Committee.
National Forest Reservation Commission.
Per Diem Travel and Transportation Allowance Committee.
Security Review Board.

Public advisory committees—Continued

Security Screening Board.
 General Staff Council, Office of the Chief of Staff.
 Departmental Board of Civil Service Examiners.
 Army Staff Civilian Personnel Advisory Committee.
 Department of Army Accelerated Item Reduction Program Task Group.
 Program Advisory Committee.
 Small Business Council.
 Department of Army Project Advisory Group for Operations Research Office
 Project 71.3.2 (Plant and Production Equipment Reserves).
 Army Emergency Facilities Depreciation Board.
 Section VI Subcommittee (Buy American Administration).
 Special Working Group—ASPR Subcommittee on Case 58-58.
 Advisory Committee on Procurement Without Advertising of Technical
 Equipment and Components.
 Army Inspection and Quality Control Council.
 Army Packaging Board.
 Small Business Policy Group (Exhibit and Display)
 Special Subcommittee (Small Business Act—Public Law 85-530), Armed
 Services Procurement Regulation Committee.
 Department of Army Industrial Fund Improvement Task Force.
 Evaluation of Army Industrial Fund at Depot Maintenance Shops.
 Joint Colocation Technical Steering Group.
 Construction Requirements Review Committee.
 Army Commendation Committee.
 ODCSOPS Reports Review Board.
 Panel on Training Films.
 ODCSOPS User Test Review Board.
 Materiel Requirements Review Committee.
 Army-Air Force Civilian Welfare Fund, Board of Directors.
 Army Publications Board.
 Army Staff Public Law 313 and Supergrade Committee.
 Department of Army Board of Job Evaluation Appeals.
 Grade and Branch Imbalance Committee.
 Trainee, Trainee and Patient Committee.
 Army Budget Advisory Committee.
 Intelligence Specialization Review Board.
 ACSI Welfare Fund.
 Program-Budget Advisory Committee.
 Army Mapping Committee.
 Army Review Board for Project ACSI-MATIC.
 Employee Activity Fund Council.
 Transportation Subcommittee.
 Petroleum Subcommittee of the Economic Intelligence Board.
 Ad Hoc Working Group on Missile Launching Sites.
 Transportation Capabilities Estimates Group.
 Project Advisory Group for Operations Research Office (John Hopkins Uni-
 versity) Intelligence Division (less Communication Group).
 Army ASTIA Liaison Committee.
 Army Committee on Environment.
 Army Human Factors Research Advisory Committee.
 Human Factors Engineering Committee.
 Army Operations Research Steering Committee.
 Project Advisory Group for Air Defense Division, ORO.
 Project Advisory Group for Intelligence Division (Communications Group),
 ORO.
 Project Advisory Group for Operations Division (Logistics Operations in
 Limited War Areas) (Logistics Gaming), ORO.
 Project Advisory Group for Operations Division (Military Vehicle Propul-
 sion Research Group), ORO.
 Project Advisory Group for Operations Division (Mobile Army Transport),
 ORO.
 Project Advisory Group for Operations Division (Operational Mobility),
 ORO.
 Project Advisory Group for Operations Division (Strategic Mobility), ORO.
 Project Advisory Group for Strategic Division (Army Manpower Structure
 Model), ORO.

Public advisory committees--Continued

Project Advisory Group for Strategic Division (Civil Affairs and Military Government Studies Group), ORO.
 Project Advisory Group for Tactics Division, ORO.
 Army Research and Development Review Board.
 Army Scientific Advisory Committee on Chemistry.
 Missile "A" Steering Committee.
 Washington Standardization Officers (ABC Army Standardization Program).
 Primary Standardization Office.
 Category 8 (Research Collaboration) Committee (ABC Army Standardization Program).
 Department of the Army Gratuities Clause Board.
 Project Advisory Group for Strategic Division (CAMG Studies Group), ORO.
 Regular Army Selection Board.
 Distinguished Military Graduate Selection Board.
 Removal Selection Board.
 Special Selection Board.
 Army Uniform Board.
 Department of Army Petroleum Panel.
 DOD Commodity Coordination Group 8.
 DOD Commodity Coordination Group 16.
 Coordinating Group, Armed Services Graves Registration Office.
 Quartermaster Corps Technical Committee.
 Committee on Purchases of Blind-Made Products.
 Armed Services Industrial Mobilization Council.
 Joint Army-Air Force Master Menu Board.
 ABC Working Party for Serial 9.0.
 Transportation Corps Technical Committee.
 Engineering Change Proposal Board.
 Army Electronic Warfare Policy Committee.
 Call Signs Panel--Military Communications-Electronics Board.
 Corps of Engineers Technical Committee.
 Department of Army Committee for Preparation of Proposed Revisions to TM 743-200 and TM 743-200-1, "Storage and Materials Handling."
 Committee on Fire Statistics, Federal Fire Council.
 Twenty-Year Geodetic Program Committee.
 Army Termination Committee.
 Coordinating Committee on Great Lakes Basic Hydraulic and Hydrologic Data.
 Army Information Digest Review Committee.
 Information and Editorial Civilian Career Program Steering Committee.
 Coordinating Representatives for Chemistry.
 Chemical Corps Technical Committee.
 International Columbia River Engineering Board.
 International St. Croix River Engineering Board.
 Steering Group Army Establishment Reporting and Analysis Requirements Project.
 Ordnance Technical Committee.
 Subcommittee on Military Health Statistics.
 Requirements Advisory Group for Neuropsychiatric Research.
 Fiscal Sponsors Committee of the Toxicological Information Center.
 Interdepartmental A' Hoc Committee to Consider Changes to the Dependents' Medical Care Program.
 Committee on Medical Logistical Support of Refugee Population.
 Advisory Council to the Surgeon General for Reserve Affairs.
 Subcommittee on Special Maps (Interagency Committee on Map and Chart Symbols).
 Federal Safety Council, Committee on Field Councils.
 Interdepartmental Committee on Medical Training Aids.
 Federal Nursing Services Council.
 Procedures Group, President's Committee on Fund Raising Within the Federal Service.

DEPARTMENT OF THE NAVY**Executive Office of the Secretary:**

Navy Publications and Printing Control Committee.
 Research and Development.

- Executive Office of the Secretary - Continued**
Ad Hoc Committee to Plan Establishment of Proposed Naval Physical Disability Review Board.
Executive Committee of the Department of the Navy.
Reserve Forces Committee.
Civilian Awards Boards.
Ad Hoc Committee for the Study of the Administration of B. O. 10501, Safeguarding Official Information in the Interests of the Defense of the United States.
Per Diem, Travel and Transportation Allowance Committee.
Navy Policy Council.
- Administrative Office:**
Administrative Officers' Council.
Departmental Council of Security Officers.
Departmental Civilian Personnel Council.
EXOS Administrative Council.
Navy Publications and Printing Control Subcommittee.
- Office of Navy Comptroller:**
Joint Committee on Military Pay Procedures.
Military Pay and Allowance Committee.
- Office of Industrial Relations:**
Committee on Paid Advertising.
Navy Civilian Personnel Council.
Navy Department Safety Council.
Navy Department Security Review Board.
Navy Wage Committee.
- Office of Naval Material:**
Navy Department Material Inspection Service Advisory Committee.
Settlement Review Board.
Debarment Committee.
Armed Services Board of Contract Appeals, Navy Panel.
Department of Navy Provisional Advisory Committee.
Navy Standardization Board.
Navy Committee for Class 3 Plant Property.
Navy Packaging Board.
Survey of test equipment calibration and repair facilities.
Production Equipment Control Study Group.
Navy Small Business Council.
Navy Emergency Facilities Depreciation Board.
Navy Contract Adjustment Board.
Procurement Policy Advisory Committee.
Navy Procurement Assignment Committee.
Conservation and Utilization of Material Resources Committee.
Property Disposal Review Board.
- Bureau of Aeronautics:**
AEW/CIC Steering Committee.
Aeronautical Standards Group, Panel ANC-23.
Inter-Bureau Technical Committee for Aircraft Armament and Ordnance
Intra-Bureau Change Committee.
Planning and Improvement Board.
Regulus I and II Warhead Coordinating Committee.
Shore Station Development Board.
Cockpit Development Board.
BuAer Electronics Logistics Committee.
Engine Test Liaison Committee.
BuAer Data Processing Advisory Board.
BuAer Data Processing Review Board.
Interservice Group for Flight Vehicle Power, Batteries Working Group,
Electrical Working Group, Nuclear Working Group, Solar Working Group,
Mechanical Working Group.
BuAer Fuel Quality Controls and Surveillance Committee.
BuAer Committee on IAP Policy.
BuAer Steering Committee for IAP.
Naval Reserve Policy Board.
BuAer Permanent Post Graduate School Committee.
Procurement Review Board.
Bureau Property Disposal Review Board.
BuAer Study Group on Contractor Reporting Systems.

Bureau of Aeronautics--Continued

BuAer Committee on Security Classification of Electronic Equipment.
 BuAer Settlement Review Board.
 BuAer Shelf Life Committee.
 Supply Item Design Changes Ad Hoc Committee.
 Value Analysis Committee.
 Settlement Review Board.
 Aviation Accident Board.
 Instrument Flight Board.
 Airspace Ad Hoc Committee.
 Safe Driving Council.
 Pacific Missile Range Advisory Board.
 Council for Military Aircraft Standards.
 BuAer Industry Advisory Board on Reliability and Operational Design Requirements of Aeronautical Material.

Marine Corps:

Marine Corps Station Development Board.
 Landing Force Ship Advisory Group.
 Headquarters Security Screening Board.
 Headquarters Security Review Board.
 Marine Corps Electronics Advisory Board.
 Marine Corps Exchange Board.
 Marine Corps Mess Fund Board.
 Central Marine Corps Recreation Fund Board.
 Marine Corps Stock Fund Board.
 Headquarters Marine Corps Civilian Security Screening Board.
 Marine Corps Planning and Programming Committee.
 Uniform Board, Permanent Marine Corps.
 Marine Corps Research and Development Committee.
 Replacement Factor Review Board.
 Ad Hoc Committee To Study Marine Corps Air Defense Responsibility, Period 1960-70.
 Air Defense Continuing Committee.
 Permanent Reports Screening Committee.
 Permanent Marine Corps Abbreviations Board.
 Headquarters Advisory Committee on Civilian Training.
 Informational Service Coordinating Committee.
 Journalism Award Judging Committee, Annual.
 HQMC Committee on Correspondence Practices.
 Board of Visitors to Marine Corps Institute.

Bureau of Medicine and Surgery: Armed Services Medical Materiel Coordination Committee.**Chief of Naval Operations:**

Ship Characteristics Board.
 Personnel Monitoring Group.
 Standing Committee, Shipbuilding, and Conversion.
 Acoustic Intercept Committee, Navy.
 Shore Station Development Board.
 Command Shore Station Development Board, 4th ND.
 6ND Command Shore Station Development Board.
 Sub-Board Inspection and Survey.
 Potomac River Naval Command Shore Station Development Board.
 11ND Safe-Driving Council, Southern Area.
 9ND Command Shore Station Development Board.
 Aviation Ordnance Requirements for CVS/CVA.
 Standing Committee for the Preparation of the Basic Naval Establishment Plan, both Tentative and Final.
 Advisory Board on the Naval Establishment Program and Budget.
 Standing Committee on Readiness and Safety.
 Amphibious Warfare Advisory Board.
 Navy Stock Fund Board.
 Commission for Maritime Meteorology, Working Group on Sea Ice.
 Navy Research and Development Review Board.
 Navy Film Production Board of Review.
 Standing Committee on Personnel, Training, and Readiness.
 Ad Hoc Surface Ship Radar Research and Development Program Committee.
 Tactical International Data Exchange Committee.

Chief of Naval Operations—Continued
 Arctic and Cold Weather Coordinating Committee.
 Committee on the International Rules of the Road.
 U.S. Base Requirements Overseas.
 National Naval Reserve Policy Board.
 Cold War Advisory Panel.
 Continuing Committee for the Review of Plans.
 Foreign Officer Exchange Committee.
 Berlin Task Group.
 Submarine Advisory Board.
 Antisubmarine Conference Program Working Group, Group II.
 Board To Recommend Changes in the Personnel and Naval Reserve and Training Departments, Headquarters, 4ND.
 Delaware State Reserve Forces Facilities Board.
 4ND Naval Reserve Policy Board.
 Command Shore Station Development Board 12ND.
 Committee on Conservation and Utilization of Material Resources.
 Naval Reserve Policy Board.
 Armed Forces Disciplinary Control Board, Northeast Area.
 District Naval Reserve Policy Board, Fiscal Year 1959, 1ND.
 Massachusetts State Reserve Forces Facilities Board.
 Command Shore Station Development Board, 1ND.
 Area Coordination Group 1 of the Interservice Supply Support Program.
 11ND Rental Board.
 11ND Continuing Survey Board.
 Board of Inspection.
 Command Shore Station Development Board, 11ND.
 Southern Subcommittee of Area Coordination Group VI, Interservice Supply Support Program.
 State Reserve Forces Facilities Board, Southern California Section.
 Armed Forces Disciplinary Control Board, San Diego Area.
 Central Board of U.S. Civil Service Examiners for Puerto Rico and Virgin Islands.
 Training Committee for Headquarters, 3ND and Associated Activities.
 Naval Reserve Surface Program Review Board.
 3ND Headquarters Planning Committee
 Interdepartmental Intelligence Conference.
 Northern Subcommittee, Area Coordination Group VI, Interservice Supply Support Program.
 Armed Forces Disciplinary Control Board, Seattle Area.
 Shore Station Development Board, Guam.
 Budget and Planning Board
 Interference Reduction Board.
 9ND Audit Boards.
 Commandant's Management Council.
 District Headquarters Planning Group.
 9ND Continuing Survey Board.
 North Central U.S. Joint Planning Committee.
 Emergency Cryptographic Board.
 9ND Sub-Board of Inspection and Survey.
Bureau of Naval Personnel:
 Protestant Chapel Fund Committee.
 Permanent Naval Uniform Board.
 Naval Aviation Evaluation Board.
 Manpower Information Advisory Committee.
 Committee to Review Enlisted Service Records.
 Continuity of Operations Committee.
 Security Review Boards.
 Security Screening Boards.
 Enlisted Performance Evaluation Board.
 Chief of Naval Personnel Faculty Committee.
 Standing Committee on Leadership.
 Ad Hoc Panel To Review Public Information Specialists Billet Problem.
 Board for General Review of Enlisted Rating Structure.
 Permanent Warrant Officer Retention Board.
 Permanent Board for Review of the Enlisted Rating Structure.
 Officer Performance Evaluation Board.

Bureau of Naval Personnel—Continued

Naval Reserve Officer Status Board.

Officer Status Board:

Management Development Panel.

Officer Records Committee.

Chief of Naval Personnel's Traffic Safety Committee.

Board of Audit Records and Funds of the BuPers Collection Clerk.

Permanent Change of Station Budgeting Board.

Commissioned Officers' Mess (Closed) Audit and Inventory Board.

Advisory Group, CPO Mess (Open).

Chapel Funds (Protestant, Catholic, and Jewish) Audit Board.

Tenants Relations Council, U.S. NTC, Great Lakes, Ill.

Audit and Inventory Board, Great Lakes NTC Nursery School.

Naval Training Center Safe-Driving Council.

Permanent Shore Station Development Board for the Great Lakes Area.

Chief Petty Officers Mess (Open) Audit and Inventory Board.

Passive Defense Planning Board.

Commissioned Officers' Mess (Open) Audit and Inventory Board.

Joint Armed Forces Disciplinary Control Board (Illinois-Wisconsin Area).

Eye Hazard Determination Committee.

CNTC Center Council and Technical Advisory Staff.

House Committee, Commissioned Officer's Mess (Open).

BOQ Advisory Committee.

NTC Safety Committee.

Advisory Group EM Club (Neptune Club).

Rental Housing Board, USNTC, Great Lakes, Ill.

Station Development and Work Projects Review Board.

Fiscal Review Board, USNTC, Bainbridge, Md.

Formal Survey Board, USNTC, Bainbridge, Md.

Station Development Board, USNTC, Bainbridge, Md.

Accident and Fire Prevention Council, USNTC, Bainbridge, Md.

Bureau of Ordnance:

Advisory Library Committee.

Hazards of Electromagnetic Radiation to Ordnance.

Joint Army-Navy-Air Force Fuze Committee.

Facilities Review Board.

Shore Station Development Board.

Research Division Guided Missile.

Facilities Board.

Management Improvement Committee.

Shore Station Development Board.

Planning and Development Board.

Survey Board No. 1.

Data Processing Committee.

Subroc Technical Advisory Group Committee.

XW-40/CORVUS Missile Coordinating Committee.

Contract Termination Settlement Review Board.

Security Screening Board.

Settlement Review Board.

Contract Division Procurement Review Board.

Inter-Bureau Technical Committee for Aircraft Armament and Ordnance.

Reserve Fleet and Dems.

Committee to Revise NAVEXOS Forms 3302 and 3302A.

Contract Division Promotion Board.

High Altitude Sounding Projectile Committee.

Maintenance, Retention and Disposal.

ASROC Coordinating Committee.

Task Group for Review of Mobilization Production Schedules.

BuOrd/BuAer Working Panel on Miss Distance Indicators.

Permanent Study Board No. 1.

Formal Survey Board No. 2, U.S. Naval Weapons Plant, Washington, D.C.

Electronic Data Processing Policy Committee.

Naval Weapons Plant Planning Board.

Narcotic and Alcohol Inventory Board.

Tool Screening Board.

Paperwork Management Committee.

Bureau of Ordnance--Continued

Audit and Inventory Board for Commissioned Officers' Messes (Open and Closed), U.S. Naval Weapons Plant, Washington, D.C.
 Disbursing Officer Cash Verification Board.
 Audit and Inventory Board No. 3 (Narcotics, Alcohol and Alcoholic Beverages).
 Budget Committee of the Planning and Development Board.
 Rental Appraisal Board.
 Audit and Inventory Board No. 1 (Commissioned Officers' Mess and Telephone Mess).
 Audit and Inventory Board No. 2 (Chapel Fund and Enlisted Men's Club).
 NOLC Stores Committee.
 Inter-Laboratory Committee on Editing and Publishing.
 Value Analysis Study Group.
 Mechanical and Electromechanical Systems Subcommittee of the Joint Army-Navy-Air Force Fuse Committee.
 Board of U.S. Civil Service Examiners for Scientific and Technical Personnel of the Potomac River Naval Command.
 East Coast Laboratories Committee on Antisubmarine Warfare.
 U.S. Advisory Committee on NATO "C" Cores and Magnetic Lamination Standardization.
 Heat Transfer Panel of the BuOrd Committee on Aeroballistics.
 LULU Coordinating Committee (Atomic Depth Bomb).
 Ship Improvement Guide, Glass Improvement Plan, Material Improvement Plan.
 SUBROC (Submarine Rocket) Joint Coordinating Committee.
 SUBROC (Submarine Rocket) Task Team.
 Naval Advisory Committee on Human Engineering.
 Inter-service Technical Group for Shock and Vibration.
 Technical Library Advisory Committee.
 Subcommittee on Computers.
 Recruitment and Retainment Committee.
 NOTS Advisory Board.
 Hydroballistics Advisory Committee.
 Undersea Warfare Research and Development Planning Council.
 Torpedo Mk 37 Mod 1 Task Team.
 Torpedo Mk 44 Mod 0 Technical Task Team.
 Torpedo Mk 46 Mod 0 Task Team.
 "Jet Panel" of BuOrd Committee on Aeroballistics.
 Technical Advisory Panel on Aeronautics.
 Joint Army-Navy-Air Force Solid Propellant Surveillance Panel.
 Hyperballistics Panel of the BuOrd Committee on Aeroballistics.
 PUFFS Task Team (Submarine Fire Control Sonar).
 Drag Panel of the BuOrd Committee on Aeroballistics.
 BuOrd Committee on Aeroballistics.
 Surface Weapon System Safety Committee.
 Standardization of Requirements for the Preparation and Procurement of Engineering Drawings, DOD Proj 703-27.
 Polaris Reentry Body Coordinating Committee.

Bureau of Ships:

Shipyard Integrated Data Processing Committee, Norfolk.
 Development Advisory Committee, Pearl Harbor.
 Development Board, Pearl Harbor.
 Shipyard Development Board, Boston.
 Committee for Negotiation of Architectural-Engineering Contracts.
 Navy Research Facilities Review Board.
 Contract Review Board, Puget Sound.
 Shipyard Development Board, New York.
 Shipyard Development Advisory Board, New York.
 Disposal Review Board, New York.
 Electronic Data Processing Machine Steering Committee, Charleston.
 Special Task Group on Bearings.
 Navy Amphibious Material Handling Committee.
 Fleet Improvement Council.
 Junior Settlement and Property Disposal Review Board.
 Boat Design Panel.
 Aerodynamics Research Advisory Committee.

Bureau of Ships—Continued

Armed Forces Day Committee.
Cash Verification Boards for Collection Agent and Disbursing Officer.
Hydromechanics Research Advisory Committee.
Hydromechanics-Structural Mechanics Liaison Committee.
Imprest Fund Audit Committee.
Inventory Evaluation Board.
Scheduling Committee.
Shore Station Development Board.
Telephone Audit Committee.
Survey Panel.
Board of Material Inspection of Service Craft.
Shipyards Survey Board, Boston.
Armed Forces Day "Open House" Committee, Boston.
Audit Board for NavMed-1801, Statement and Inventory of Precious and Special Dental Metals, Boston.
Narcotics and Alcohol Inventory Board, Boston.
Ad Hoc Committee to Determine Facilities and Training Required for Fitting-Out and Commissioning of CG (N)-9.
Shipyards Survey Panel.
Board of Inspection of U.S.S. Constitution.
Ad Hoc Overhead Review Committee.
Ad Hoc Committee for Inactivation of South Boston Annex.
Interdepartmental Material Control Manual Committee.
Shipyards Application and Scheduling Committee for Data Processing.
Precommissioning Inspection Board.
Fire Prevention Council.
Chemical Control Committee.
Board to Investigate and Determine Proper Utility and Rental Rates for Rental Housing at San Francisco Naval Shipyards.
Formal Survey Board.
Station Development Board.
Facilities Review Committee.
Planning and Production Policy Committee.
Advisory Committee to DOD Project 703-27.
Committee on Anti-Friction Bearings.
Board on Changes.
Laboratory Computer Committee.
Laboratory Development Board.
Laboratory Radioactive Material Committee.
Disposal Review Board.
Inventory Review Board.
Committee to Review Utilization of Engineers and Scientific Personnel.
Plant Priority Review Board.
Code Four Publications Inspection Board.
Auditing Board for Registered Publications.
Electronic Data Processing Committee.
Storage Space Review Board.
Station Development Board, Puget Sound.
Industrial Chemicals Committee.
Shipyards Survey Board, Puget Sound.
Shipyards Housing Board, Puget Sound.
Shipyards Pre InsSurv Board, Puget Sound.
Shipyards Safe Driving Council, Puget Sound.
Material Inspection Board for Service Craft, Puget Sound.
Naval Base Passive Defense Planning Board, Puget Sound.
Shipyards Training Committee, Puget Sound.
Computing Scheduling Committee, Puget Sound.
Radioisotope Committee.
Inter-Laboratory Committee on Facilities.
Reports Review Board.
Shipyards Survey Panel, New York.
3ND Sub-Board of Inspection and Survey at Brooklyn, N.Y.
Financial and Operations Policy Planning Board, New York.
3ND Material Inspection Board for Service Craft, New York.
Board to Verify Cash in Custody of Disbursing Officers.
Local Auditing Board for Unofficial Telephone Service.

Bureau of Ships—Continued

Board of Inventory Narcotics, Alcohol, and Alcoholic Beverages.
 Shipyard Task Group, New York.
 Shipyard Screening Panel, New York.
 Chemical Control Committee, Charleston.
 Board of Inspection for Ocean and Inland Waterway Tows.
 Board for Periodic Material Inspection of Service Craft.
 Joint Safe Driving Council.
 Disposal Board.
 Committee on Flexible Budget.
 Passive Defense Training Committee.
 Production Planning and Control Board.
 Functional Engineering Practices Program Committee.
 Material Control Committee.
 Shipyard Development Board.
 Shipyard Training Board.
 Masters' Safety Committee.
 Board to Verify Disbursing Officer's Cash.
 Intra-Bureau Committee on Replenishment at Sea.
 Hydromechanics Research Council.
 SSN Noise Advisory Committee.
 SSN Noise Advisory Committee (Turbine Noise Panel).
 Navy Gear Industry Committee.
 Navy Industry Switchboard Advisory Committee.
 Industry Advisory Committee on Shipboard Cable.
 SSN Noise Advisory Committee (Piping Noise Panel).
 SSN Noise Advisory Committee (Air Conditioning Noise Panel).
 SSN Noise Advisory Committee (Structural Impedance Panel).
 SSN Noise Advisory Committee (Pump Noise Panel).
 Advisory Panel on Solid State Physics.
 Naval Research, Advisory Committee.
 Advisory Committee on Nuclear Physics.
 Radiological Policy Committee.
 Navy Industry Committee on Propulsion Turbines.

Bureau of Supplies and Accounts :

Contract Review Board, Naval Supply Center, Norfolk.
 Cafeteria Board of Directors.
 Contract Review Board for Disposal.
 Automation of Warehouse Operations Committee.
 Contract Review Board for Disposal.
 Disposal Review Board.
 Contract Review Board.
 Material Inspection Board.
 Contract and Disposal Review Board.
 Requirements Evaluation Committee.
 Contract Review Board.
 Electronic Data Processing System Study Group.
 Contract Review Board.
 YDSO Contract Review Board.
 Contract Review Board.
 Programs Committee, Federal Safety Council.
 Position Evaluation Committee.
 Shore Station Development Board.
 Contract Termination Settlement Review Board.
 Electronic Data Processing System Feasibility Study Committee.
 Research Analysis Board.
 Administrative Committee.
 Contract Review Board.
 Military Medical Supply Agency Station Development Board.
 Military Medical Supply Agency Requirements Review Committee.
 Station Rental Board (Oranney Island).
 Housing Fund Verification Board.
 Formal Survey Board.
 Financial Audit and Verifying Board No. 2.
 Financial Audit and Verifying Board No. 1.
 Shore Station Development Board, NSC.

Bureau of Supplies and Accounts—Continued

Safety Committee.
 Station Rental Board (Cheatham Annex).
 Disposal Award Board.
 Utility Rate and Audit Board No. 1.
 Utility Rate and Audit Board No. 2.
 Screening and Appraisal Board.
 Value Consciousness Committee.
 Inventory Board of Narcotics, Alcohol, Alcoholic Liquors, and Precious Metals.
 Chemical Control Committee.
 Non-Financial Audit and Verifying Board.
 Station Development Board.
 Storage Task Group.
 Plant Account Survey and Formal Survey Board.
 Narcotics, Alcohol, and Precious Metals Inventory Board.
 Materials Handling and Storage Methods Committee.
 Electronic Data Processing System Policy Committee.
 Electronic Data Processing System Feasibility Study Committee.
 Disposal Review Board.
 Surplus Narcotics Destruction Board.
 Cash Verification Board.
 Stock Control Committee.
 Accident Review Board.
 Eye Hazard Determination Committee.
 Electronic Data Processing Machine Committee.
 Shore Station Development Board.
 Great Lakes EDPM Feasibility Study Committee.
 Shore Station Development Board.
 Safety Policy Committee.
 Document Reconciliation Coordination Team.
 Shore Station Development Board.
 NSD Budget Board.
 Survey Board Nos. 1 and 2.
 Board for Certification of Cash in Custody of Disbursing Officer.
 Imprest Fund Verification Board.
 Training Committee.
 Military Personnel Training Board.
 NSD Safety Program Appraisal Committee.
 NSD Safety Policy Council.
 NSD Safety Councilmen.
 NSD Management Improvement Council.
 NSD Classified Documents Destruction Board.
 ASO Settlement Review Board.
 ASO Interservice Supply Support Committee.
 Defense Standardization Program Committee.
 Data Processing Committee.
 ASO Budget Committee for Aircraft and Facilities.
 Steering Committee for Transaction Reporting.
 Steering Committee for Accelerated Item Reduction Program.
 Steering Committee for Transferring Functions of the Training Device Supply Office to the Electronics Supply Office.
 Electronics Supply Office-Stanford Research Institute Working Committee.
 ESO Navy Stock List Refinement Committee.
 Requirements Review Board.
 Transaction Reporting Audit Committee.
 Survey Board.
 Contract Termination Settlement Review Board.
 ESO Stock Purchase Budget Committee.
 Commodity Coordination Group 2.
 Commodity Coordination Group 5 (Antifriction Bearings).
 Commodity Coordination Group 6.
 Commodity Coordination Group 15.
 GSSO Budget Committee.
 GSSO Settlement Review Board.
 Navy Subsistence Office Budget Committee.

Bureau of Supplies and Accounts—Continued

Navy Subsistence Office Subsistence Standardization Committee.
 Ney Memorial Awards Committee.
 YDSO War Plans Council.
 YDSO Budget Committee.
 YDSO IDP Policy Committee.
 U.S. Navy Ship's Store Office Advisory Committee.
 Petroleum Packaging Industry Advisory Committee.
 Cargo Container Subcommittee of the American Standards Committee MH-5
 "Container Standardization."

Bureau of Yards and Docks:

Automotive and Construction Equipment Repair Contract Review Board.
 Contract Award and Review Board.
 Research and Investigation Council.
 Motion Picture Advisory Board.
 Joint Utilities Board.
 NCEL Contractor Selection Board.
 NCEL Contract Review Board.
 Contract Award and Review Board.
 Contract Award and Review Board Selection Committee.
 Board for Real Estate Appraisal Contract Awards.
 Planning Board.
 Special Projects Board.
 Negotiated Construction Contract Board.
 Specialized Equipment Procurement Advisory Board.
 Contract Award Board.
 Armed Forces Pest Control Board.
 Committee for the Revision of Cost Classification Covering Station Maintenance and Operations.
 Executive Advisory Board.
 Informal Board To Evaluate Capehart Housing.
 Ad Hoc Committee.
 Negotiation Board for Acquisition of Wherry Housing Projects.
 Public Works Transportation Center Accident Review Board, 12ND.
 NCEL Budget Board.
 NCEL Property Disposal Board.
 NCEL Scholarship and Professional Qualifications Board.
 Contract Review Board.
 NCEL Senior Board.
 Passive Defense Council.
 Local Board, Shore Station Development Project.
 General Safety Council of AREAPWO, Chesapeake.
 APWO/OICC Contract Procedures Review Board.
 Board to Review Utility Charges for Bellevue Housing.
 Real Estate Appraisers and Title Evidence Contractors Selection Board.

DEPARTMENT OF THE AIR FORCE**Air Defense Command :**

Target Systems Development Planning Group.
 Group to Formulate H-43A/B Operational Crash Rescue, Helicopter Plan.
 Group to Formulate Q-2A/C Operational Plan.
 ADC/FAA Joint Radar Planning Group.
 Facilities Evaluation Board.

Air Force Accounting and Finance Center :

Waiver and Remission Board.
 Planning Board.
 Budget Advisory Committee.
 Advisory Committee.

Air Materiel Command :

Headquarters, Air Materiel Command :
 AMC Council.
 USAF Radio-Isotope Committee.
 USAF Committee on Calibration and Repair of Precision Measurement Equipment.
 Government-Furnished Aircraft Equipment Rejection Reporting System Committee.

Air Materiel Command—Continued

Headquarters, Air Materiel Command—Continued

Master Planning Board.

Military Construction Program Review Panel.

Project PIC Working Group—Plan for Improvement for Program Management.

Financial Programs Committee.

Budget Review Committee.

Data Systems Committee.

Steering Committee—Propulsion Systems.

Air Vehicle Working Group Steering Committee on Consumption-Type

EDPE Requirements Computation.

Weapon System Program and Status Report Task Group.

Joint AMC/ARDC Program Coordination Committee.

Material program Review Committee Work Group.

Aircraft Engine Life Expectancy Committee.

Committee on Contract Maintenance.

Aircraft Escape Systems Equipment Advisory Group.

Ad Hoc Committee on Electronic Supporting Systems.

AMC-ARDC Communications-Electronics Reliability Committee.

Air Force Emergency Facilities Board.

ASPR Patents Subcommittee.

Settlement Review Board.

Property Disposal Review Board.

Personal Equipment Advisory Group.

Ammunition Equipment Advisory Group.

Commodity Coordination Group No. 31.

Commodity Coordination Group No. 34.

Propulsion Sub-Systems Equipment Advisory Group.

Commodity Coordination Group No. 21.

Airborne Power Plant Logistics Planning Board.

USAF Base Supply Automation Task Group.

Materiel Repair System Committee.

Middletown Air Materiel Area:

Modification Review Board.

Flight Safety Materiel Deficiency Task Group.

Support System Management Group Meeting.

AOCOP-MOCP-ANFE-AWIS Committee.

Area Coordination Group II of the Armed Forces Supply Support Center.

Mobile Air Materiel Area:

HI-Valu Military Assistance Group Stock Balance and Consumption Reporting Procedural Development Task Group.

Commodity Coordination Group 3.

Commodity Coordination Group 9.

Commodity Coordination Group No. 17.

Oklahoma City Air Materiel Area:

Facility Advisory Board.

Flight Safety Materiel Deficiency Task Group.

Purchase Methods Evaluation Board.

AOCOP-MOCP-ANFE-AWIS Committee.

B-52 Modification Review Board.

Ogden Air Materiel Area:

AOCOP-MOCP-ANFE-AWIS Committee.

Budget Review Committee.

Executive Council.

HI-Value Program Management Committee.

Installation Planning Board.

Modification Review Board.

Procurement Committee.

Supply Grass Roots Improvement Program.

Rome Air Materiel Area:

Modification Review Board.

Worldwide Ground Communication Electronic Equipment Maintenance and Technical Data Group.

Commodity Coordinator Group—14 and 20.

Area Coordination Group No. 1.

Air Materiel Command—Continued**Rome Air Materiel Area—Continued**

Maintenance Engineering Management System Refinement Committee.
 Canadian Production Sharing Working Group—Ground Electronics.
 GHEIA Cadre.

San Antonio Materiel Area :

Engine Control Group.
 Electronic Warfare Control Group.
 Installation Facility Utilization Board.
 Aircraft Accident Investigating Board.
 Purchase Methods Evaluation Panel.
 Settlement Review Board.
 Procurement Committee.
 Facility Advisory Board.
 Conservation Board-Policy Group.
 Disposal Review Board.
 Plans Coordination Group.
 Southern California Arizona Military Interservice Inspection Exchange
 Committee.

Warner Robins Air Materiel Area :

K-series, MA-6A, and MA-7A BNS Steering Committee.
 Commodity Coordination Group 22.
 Procurement Survey Analysis Evaluation Panel.
 GRIP Coordination Control Board.
 Facility Advisory Board.
 Settlement Review Board.
 Supply Operations Committee.
 Area Coordination Group.
 GRIP Task Group.
 Budget Advisory Committee.
 Property Disposal Review Board.
 Aircraft Accident Investigating Board.
 Flight Safety Materiel Deficiency Task Group.
 AOCIP-MOCP-ANFE-AWIS Committee.
 Modification Review Board.

Air Materiel Force, European Area :

Committee on Project Money Saver.
 MAP Centralized Jet Engine Overhaul Facilities.
 Sales Contract Review Board, Central Disposition Task Force.
 Master Planning Board.
 Sales Contract Review Board, European Southern Disposition Task
 Force.
 Management Committee, Reporting Requirements.
 Overseas Weapon System Support Group.
 Sales Contract Review Board, European Northern Disposition Task
 Force.
 Financial Policy Committee.
 Base Disposal Board.
 56-5 Management Committee on Improved Logistics.
 Military Assistance Program Management Committee.
 HEDAMFEA Procurement Committee.
 Technical Staff.
 Overseas Equipment Management Group for C. and E.
 Budget Review Committee.
 Command Installations Planning Board.
 Equipment Review Board.

**AMC Aeronautical Systems Center: Committee for Development of Manu-
 facturing Process for Aircraft Materials.**

Headquarters, Wright-Patterson Air Force Base :

Commander's Executive Control Meeting.
 Budget Advisory Committee.
 Financial Management Council.
 Air Traffic Control Board.
 Flight Safety Council.
 Planning Board.
 Equipment Review Board.

Air Materiel Command—Continued

Dayton Air Force Depot :

AN/ARC-58 Management Task Group.

AN/ARC-65 Management Task Group.

Electron Tube Equipment Management Group.

Air Research and Development Command :

Small Business Guidance Group.

Interservice Group for Flight Vehicle Power.

ASTIA Operational Liaison Committee.

Council for Military Aircraft Standards.

Weapon Systems Review Board.

Weapon System Development Plan Board.

Budget Evaluation Committee.

Computer Committee.

Program Policy and Procedures Board.

Program Budgeting Committee.

Electromagnetic Warfare Advisory Group.

Advanced Countermasures Steering Committee.

Communications Technical Advisory Committee.

Project 7776 Review Board.

Data on Tri-Service Working Group on Solid Propellants.

Data on Aircraft and Missiles Engine Advisory Group.

USAF Nuclear Weapon System Safety Group.

Technical Advisory Panel, Systems Management Division.

Technical Advisory Panel, Air Force Ballistic Missile Division.

SNAP Hazards Committee.

Joint Air Force-Navy Store Suspension Working Committee.

Aircraft Monitor and Control Study Group.

Aeronautical Standards Group, Airport Lighting and Marking Panel.

American Standards Association, Inc., Sectional Committee 8-2 on Mechanical Shock and Vibrating, Exploratory Group 8-2-X-43 on Testing Electronic Components in High Intensity Sound Fields.

Major Commands Crew Station Advisory Group.

Interservice Group for Flight Vehicle Power, Advanced Methods Working Group.

Group.

Council for Military Aircraft Standards, Committee CP-33, Torque-Tension Relationship for Nuts and Bolts.

Solar Working Group of the Inter Service Group for Flight Vehicle Power.

Coordinating Representative Group on Earth Physics.

Coordinating Representative Group on Oceanography.

Communications Technical Advisory Committee.

Executive Committee.

Flight Safety Council.

ROAMA-RADC QRC Committee.

Project Review Board.

Technical Advisory Group on Surveillance Techniques.

Inter-Station Supersonic Track Conference.

Structures Working Group of Interstation Supersonic Track Conference.

Instrumentation Working Group of Interstation Supersonic Track Conference.

ence.

Interstation Track Conference.

Frequency Working Group of the Interrange Instrumentation Steering Committee.

Interrange Instrumentation Group.

Electromagnetic Propagation Working Group of the Inter-Range Instrumentation Group.

Missile Flight Safety Group.

Edwards Airspace Coordinating Committee.

AFFTC Standardization Board.

AFFTC-NASA HSFS X-15 Joint Operating Committee.

Vehicle and Materiel Handling Equipment Board.

Facilities Planning Board.

ARDCR 62-10 and AFFTC Sup. 1.

Master Planning Board.

Flight Safety Council.

AFRMD Nuclear Weapons System Safety Group.

- Air Research and Development Command - Continued**
 Space Planning Board.
 Technical Advisory Group, Air Proving Ground Center.
 Menu Planning Board.
 Armed Forces-NRC Committee on Biostromatics.
- Air Training Command:**
 ATC Installations Planning Board.
 ATC Installation Program Review Panel.
 Command Vehicle Survey Team.
 Engine Life Expectancy Committee.
 Equipment Review and Authorization Committee.
 Industrial Property Requirements Board.
 Installation Menu Board.
 Amarillo AFB Exchange Advisory Committee.
 Facility Utilization Board.
 Menu Planning Council.
 Vehicle Utilization Panel.
 Base Menu Planning Board.
 ATC Advisory Board.
 ATC Modification Review Board.
 Facility Utilization Board.
 Base Exchange Advisory Committee.
 Menu Planning Board.
 Space Utilization Committee.
 Vehicle Utilization Panel.
 Base Exchange Advisory Committee, Greenville AFB, Miss.
 Facility Utilization Board, Greenville AFB, Miss.
 Vehicle Utilization Panel, Greenville AFB, Miss.
 Hartingen ARB Exchange Advisory Committee.
 Facility Utilization Board.
 Motor Vehicle Utilization & Requirements Board.
 James Connally AFB Space Utilization Board.
 Base Commander's Advisory Committee.
 Base Menu Planning Board.
 Motor Vehicle Utilization Panel.
 Facility Utilization Board, Keesler AFB, Miss.
 Lowry ARB Base Menu Board.
 Base Exchange Advisory Committee.
 Installations Planning Board.
 Vehicle Utilization Panel, Lowry AFB.
 Architect Engineer Selection Board, Lackland AFB.
 Base Exchange Advisory Committee, Lackland AFB.
 Facility Utilization Board, Lackland AFB.
 Installation Planning Board, Lackland AFB.
 Menu Planning Council, Lackland AFB.
 Vehicle Utilization Board, Lackland AFB.
 Facility Utilization Board, Reese AFB.
 Base Exchange Advisory Council.
 Base Menu Planning Board.
 Vehicle Utilization Panel.
 Facility Utilization Board.
 Base Menu Planning Board.
 Exchange Advisory Council.
 Space Utilization Committee.
 Vehicle Utilization Panel.
 Facility Utilization Board.
 Vehicle Utilization Panel.
 Base Menu Planning Board.
 Base Menu Planning Board.
 Exchange Advisory Committee.
 Vehicle Utilization Panel.
 Advisory Committee on General Policies of Base Exchanges.
 Base Menu Board
 Space Utilization Committee.
 Vehicle Utilization Panel.
 Advisory Committee on General Policies of Base Exchange.

Air Training Command—Continued

Base Menu Board.
 Space Utilization Committee.
 Vehicle Utilization Panel.
 Base Master Menu Planning Board.
 Base Exchange Advisory Committee.
 Wing Motor Vehicle Survey Board.
 Laredo AFB Exchange Advisory Committee.
 Space Utilization Committee.
 Vehicle Utilization Panel.
 Exchange Advisory Committee.
 Base Menu Board.
 Base Installations Planning Board.

Air University:

Board of Visitors to Air University.
 National Society for the Study of Communication.
 Committee on Memorialization and Decoration of Academic and Research Facilities.

Assn. of American Geographers, Advisory Committee for Air Force ROTC.
 American Political Science Association, Advisory Committee for Air Force ROTC.

Editorial Advisory Board, Headquarters, Air University.

Reserve Training Materials Review Committee.

Command Planning Board.

Architect-Engineer Selection Board.

MCP Review Panel.

Library Sub-Command Equipment Review Board.

Maxwell AFB Vehicle Utilization Board.

Gunter AFB Vehicle Utilization Board.

Editorial Board, 3882 School Group.

Reproduction and Printing Committee, 3882 School Group.

Library Committee, 3882 School Group.

Instructional Aids Committee, 3882 School Group.

Equipment Review Board, 3800 Airbase Wing.

Fire Marshal Council, 3800 Airbase Wing.

Installations Planning Board (Master), 3800 Airbase Wing.

Menu Planning Board, 3800 Airbase Wing.

Facilities Utilization Board, 3800 Airbase Wing. ..

Continental Air Command:

Operational Readiness Committee.

Operational Readiness Working Committee.

Senior Planning Group (ADP) Committee.

Command Permanent Installation Planning Board.

CONAC Review Panel.

Hq Continental Air Command Budget Advisory Committee.

Steering Committee for Automatic Data Processing.

Headquarters 4th Air Force Budget Advisory Committee.

Equipment Review and Authorization Activity.

Headquarters, 4th Air Force Reciprocating Aircraft Standardization Board.

Headquarters, 4th Air Force Communications Management Committee.

Numbered Air Forces Local Air Reserve Forces Policy Committee.

10th Air Force Local Air Reserve Forces Policy Committee.

Permanent Installation Planning Board for the 14th Air Force.

14th Air Force Air Reserve Forces Policy Committee.

State Reserve Facilities Board (Arizona).

Joint Flight Standardization Board.

Base Master Planning Board.

Rent Appraisal Committee.

Master Menu Planning Board, Mitchel AFB.

Maintenance Planning Committee.

Material Resources and Equipment Review Panel.

Flight Standardization Board.

Aircraft Accident Investigating Board.

Flying Safety Council.

Fire Marshal Council.

Ground Safety Council.

Continental Air Command—Continued

Southwest Area Joint Committee.
 Installation Planning Board.
 Installation Planning Board.
 Flight Standardization Board.
 Flight Safety Board.
 C-119G Flight Standardization Board.
 Base Planning Board.
 Equipping Review Board.
 Installation Planning Board.
 Flight Standardization Board.

Headquarters Command:

Headquarters' Command, USAF Command Planning Board.
 Committee for Establishment of a Compatible Base Supply System.
 Interservice Supply Support Committee.
 Command Modification Review Board.
 Command Budget Advisory Committee.
 Rental Appraisal Committee for Willburn Housing.
 Facility Utilization Board.
 Committee for Control of Supply and Equipment Expenditures.
 Base Flying Safety Council.
 Flying Safety Council.
 NCO Ground Safety Committee.
 Executive Ground Safety Council.
 Disaster Control Officers Council.
 Programming Committee, 1001 Airbase Wing.
 Installations Security Council.
 Fire Marshall's Council, 1001st Airbase Wing.
 Base Planning Board.
 Operations and Maintenance Review Board.

Headquarters USAF:

Air Force Ballistic Missiles Committee.
 Air Force Contract Appeals Panel.
 Air Reserve Forces Policy Committee, Air Force Reserve Policy Committee.
 Air National Guard Policy Committee.
 Air Standardization Coordinating Committee, Working Party No. 44 (Air Transport Systems).
 Air Standardization Coordination Committee, Working Party No. 85 (Language and Terminology).
 Annual Meeting Reviewing the Resupply of the DEW Line.
 Army-Air Force Wage Board.
 Ad Hoc Committee for a Separate Budget for the Air Force Reserves.
 Board of Directors, Army-Air Force Exchange and Motion Picture Services.
 Budget Advisory Board.
 Combined Warning and Target Information Panel of the Canada-United Kingdom Joint Communications-Electronics Committee and U.S. Military Communications-Electronics Board.
 DOD-FAA Advisory Committee.
 First and Second Line Aircraft Board.
 Force Estimates Board.
 Data Development Advisory Group.
 Hqs. AMC Committee to Coordinate Computer Integration of War Plants and Programs.
 International Committee of the Aero-Space Medical Association.
 International Committee of the Association of Military Surgeons.
 Joint Air Target Materials Specifications Working Group.
 Joint Committee to Study Remote and Isolated Duty Pay.
 Joint Methods and Procedures Panel of the Military Communications-Electronics Board.
 Joint Warning and Target Information Panel of the Military Communications-Electronics Board.
 Materiel Data Requirements Policy Group.
 Medical Working Group, Joint Technical Intelligence Subcommittee.
 Military Construction Board.
 National Bureau of Standards-Air Force Working Group.
 Production Sharing Policy Committee, U.S.-Canada.

Headquarters USAF--Continued

Recruiting Advertising Agency Selection Board.
 Requirements Review Board.
 Satellite Intelligence Requirements Committee.
 Subcommittee for the Review of Diagnostic Nomenclatures and Classifications.
 Space Surveillance Intelligence Support Committee of the U.S. Intelligence Board.
 U.S. Air Force Medical Research Council.
 USAF Frequency Density Group.
 USAF Ground-Air Data Link Coordinating Committee.
 USAF Printing Committee.
 Weapons Board.
 Scientific Advisory Board to the Chief of Staff, USAF.
 Scientific and Technical Exploitation Program Working Group.
 Air Force Council.
 Graphic Research Coordination Committee.
 Air Force Contract Adjustment Board.

Military Air Transport Service:

MATS Council.
 Budget Review Committee.
 Commercial Airift Capability Survey Committee.
 Procurement Committee.
 Air Transport Capability Board.
 Operational Readiness Review Committee.
 Installation Program Review Panel.
 Programming Committee.
 Aircraft Characteristic and Configuration Board.
 Mechanization Committee.
 Editorial Advisory Board.
 ICAO-ACC Coordinating Committee.
 Joint Meteorological Committee for the Pacific Command.
 Alaskan Meteorological Committee.
 Working Group on Weather Communications.
 Working Group on Weather Plans.
 Working Group on the International Exchange of Past Weather Data
 Canada-United States Regional Planning Group Meteorological Committee.
 Finance Management Committee, McGuire AFB.
 EASTAF Facilities Review Committee.
 EASTAF Financial Management Committee.
 EASTAF Flying Safety Council.
 WESTAF Council (Financial Management Committee).
 WESTAF Plans Study Group.
 WESTAF Flying Hour Capability Committee.
 323d Air Division (MATS), Travis AFB.
 Headquarters 1501st Air Transport Wing, Travis AFB.
 Office of Safety, 1501st Airbase Group.
 1502d Air Transport Wing Disaster Control Council.
 1502d Air Transport Wing, Heavy, Equipment Review and Authorization Activity.
 1502d Air Transport Wing, Heavy, Chief Pilot's Standardization Board.
 1705th Office of Safety.
 1705th Air Transport Group Standardization Board.
 Financial Management Committee.
 Equipment Review and Authorization Activity.
 Base Security Review Board.
 Equipment Review Board.
 1707th Air Transport Wing Ground Safety Council.
 1707th Flying Safety Committee.
 1707th Flying Safety Council.
 Wing Standardization Board.
 62d Troop Carrier Wing (Heavy) Resource Management Council.
 62d Troop Carrier Wing (Heavy) Safety Council.
 62d Troop Carrier Wing (Heavy) Flying Safety Council.
 62d Troop Carrier Wing (Heavy) Ground Safety Council.
 62d Troop Carrier Wing (Heavy) Security Council.
 62d Troop Carrier Wing (Heavy) Fire Marshal's Council.
 62d Troop Carrier Wing (Heavy) Base Vehicle Utilization Board.

- Military Air Transport Service--Continued**
- 02d Troop Carrier Wing (Heavy) Master Planning Board
 - 02d Troop Carrier Wing (Heavy) Equipment Review and Authorization Board.
 - 02d Troop Carrier Wing (Heavy) Space Allocation Board.
 - Base Vehicle Utilization Panel.
 - Wing Executive Safety Council.
 - Wing Standardization Board.
 - Base Equipping Review Board.
 - Base Fire Marshal's Council.
 - Air Traffic Control Council.
 - Base Mechanization Committee.
 - Wing Management Council and Financial Management Committee.
 - 1002d Wing Construction Review Panel.
 - 1002d ATW Flying Safety Council.
 - 1002d ATW Aircraft Accident Investigating Board.
 - Aircraft Ground Accident Review Board.
 - 1004th ABW Safety Council.
 - Installation Planning Board.
 - Project Review Panel.
 - 1005th ABW Flying Safety Council.
 - Vehicle Utilization Board.
 - Installation Security Council.
 - AATS Motor Vehicle Utilization Panel.
 - Flight Line Safety Board.
 - Facilities Utilization Board.
 - 1007th ATW Safety Council.
 - Financial Management Committee.
 - F-101B Weapons System Phasing Group.
 - Base Planning Board.
 - Automatic Data Processing System Planning Group.
 - Motor Vehicle Review Board.
 - Automation Committee.
 - 1008th ATW Flying Safety Council.
 - Ground Safety Council, 1008th ATW.
 - Wing Planning Board.
 - Wing Schedule Reliability Council.
 - Aircraft Logistic Support Council.
 - Motor Vehicle Utilization Board.
 - 1011th ATW Flying Safety Council.
 - Base Exchange Advisory Council.
 - Fire Marshal's Council.
 - Menu Board.
 - Vehicle Utilization Panel.
 - USAF COMLOGNET Phasing and Coordination Group.
 - Civil Reserve Air Fleet Atlantic Operations Board.
 - Pacific C-130 Operations Board.
 - Base Master Planning and Review Council.
 - Base Essentiality and Maintenance and Operations Program Review Board.
- Strategic Air Command :**
- Command Equipment Review and Authorization Activity Board.
 - Requirements Committee.
 - Class V Modification Working Committee.
 - Architect-Engineer Selection Board.
 - SAC Installation Program Review Panel.
 - Strategic System Requirements Committee.
 - SAC Target Panel.
 - SAC War Games Committee.
 - SAC Equipment and Auth. Activity Board.
 - Joint SAC-NORAD Planning Board.
 - Training Requirements Review Board.
 - Command Evaluation Group (Source Selection Boards).
- Tactical Air Command :**
- Headquarters, Tactical Air Command.
 - Budget Review Committee.
 - Budget Advisory Committee.
 - Command Installations Program Review Council.

Tactical Air Command—Continued

- Headquarters, Tactical Air Command—Continued
 - Command Installations Planning Board.
 - Tactical Air Command Modification Review Board.
 - Command Equippping Review Board.
- Headquarters, Ninth Air Force:
 - Command Planning Board.
 - 9th Air Force Essentiality Review Panel.
- 830th Air Base Group, TAC:
 - Base Equipment Review Board.
 - III-Valu Review Board.
 - Base Planning Board.
 - Budget Advisory Committee.
 - Local Area Flying Procedures, Facilities and Control Board.
- Shaw Air Force Base, TAC:
 - Budget Advisory Committee.
 - Base Essentiality Review Panel.
 - TAC Instrument Procedures Board.
 - Base Equipment Review Board.
 - Base Master Planning Board.
 - Aircraft Accident Investigating Board.
 - III-Valu Board.
 - Panel II, Base Equipment Review Board.
- Sewart Air Force Base, TAC:
 - Base Air Traffic Control Council.
 - Budget Advisory Committee.
 - Aircraft Accident Investigating.
 - Aircraft Accident Preventive Survey Board.
 - Base III-Valu Board.
 - Mid-Air Near Collision Investigation Board.
 - Base Planning Board.
- Seymour-Johnson Air Force Base, TAC:
 - Seymour-Johnson Base Planning Board.
 - Aircraft Accident Prevention Survey Board.
 - Aircraft Accident Investigating Board.
 - III-Valu Review Board.
 - Base Equippping Review Board.
 - Medical Supply and Equipment Board.
- Myrtle Beach Air Force Base, TAC:
 - Installation Facility Utilization Board.
 - 354th TACFITWG Air Traffic Control Board.
- Pope Air Force Base, TAC:
 - Flying Safety Council or Air Traffic Control Board.
 - Aircraft Accident Investigation Board.
 - Base Survey Board.
 - Base Equippping Review.
- Cannon Air Force Base TAC:
 - Financial Advisory Committee.
 - Base Master Planning Board.
 - Base Essentiality Review Board.
 - Aircraft Accident Investigating Board.
 - Equipment Review Board.
- Luke Air Force Base, TAC:
 - Installation Facility Utilization Board.
 - Base Equippping Review Board.
- England Air Force Base, Ia. TAC:
 - 401st Airbase Group, Comptroller-Financial Advisory Committee.
 - Air Traffic Control Board.
 - Aircraft Accident Investigating Board.
 - Installations Facilities Utilization Board.
- Nellis Air Force Base TAC:
 - Base Planning Board.
 - General Aviation Planning Board.
 - Equipment Review and Authentication Activity.
 - Aircraft Accident Investigation Board.
 - USAF-Civil Pilot Meetings.

- Tactical Air Command - Continued
 Williams Air Force Base PAC:
 Budget Advisory Committee,
 Installations Facility Utilization Board,
 Equipment Review and Authentication Activity,
 Aircraft Accident Investigating Board (Jet),
 Aircraft Accident Investigating Board (Conventional Aircraft),
 George Air Force Base PAC:
 Installation Planning Board,
 Equipping Review Board,
 Aircraft Accident Investigation Board.
- USAF Academy:
 Faculty Council,
 Curriculum Committee,
 First Class Committee,
 Second Class Committee,
 Third Class Committee,
 Fourth Class Committee,
 USAF Academy Uniform Board,
 Command Equipment Review Board.
- USAF Security Service:
 Command Watch Committee,
 Installations Planning Board,
 USAFSS Warning Committee.

The CHAIRMAN. 57 interdepartmental committees to deal with the disposition of excess stock?

Mr. WARD. No, of all different kinds of activity. This is the Department of Defense, boards, committees, councils, and groups in operation. The ones in the office of the Secretary and so on in the various departments show the number of relationships that have developed as to the history of supply management.

DRAPER-STRAUSS REPORTS

In 1944, there were some excellent reports made on common use items by the so-called Draper-Strauss group. They identified some 17 general commodity areas of common supplies in the services. That was during the war. They made the recommendation that the procurement groups dealing in the general supply area should be put together in the same building or general environment in order to bring about some integration between them. The first was medical. A joint medical agency was established under a directive by the two secretaries and they began to operate in the New York area. A couple of weeks later one was set up for clothing and textiles. That was early January 1945. In 1951 the Bonner subcommittee, inspecting military supply management, noted that these two procurement groups were together in the same buildings.

NEED FOR INTEGRATED MEDICAL SUPPLY

The question was raised, first, about the medical: Why is it necessary to have two medical procurement offices in the same building, one on one floor and one on the other? One using a Remington Rand accounting system and one an IBM; one using a 3-month stock status reporting system and the other a monthly system? In theory they had unified procurement but in practice they didn't. So the committee made a very strong report in June 1951, criticizing the medical system. Not only the procurement but as to distribution.

It was found that the Army had five medical depots and the Navy had five, scattered across the country. The Pensacola Naval Station was getting medical supplies 1,400 miles away from its depot in Edgewater, N.J., which they could have gotten from an Army Depot in Atlanta, a short distance away. The same thing for the Army. Fort Dix was getting their medical supplies from Schenectady when they could have gotten them from Edgewater, a few miles away.

"FEASIBILITY TEST"

In Oakland there was a Navy medical depot on one side of the street and an Army depot on the other side. The Bonner committee announced that they were going to hold some hearings on common supply procurement and distribution. Those hearings were going to be on the 19th of July 1951. On the 17th of July 1951, 2 days before the hearing, a directive came out of the Secretary's Office saying that they were going to make some "feasibility tests." They were going to study the feasibility of whether or not one service could not buy, store, and distribute common items for all three. They said the first thing to be studied was medical supplies and equipment. That was not a very happy decision in the Pentagon but it was not until March 1952 that the study got underway and it was supposed to last for 6 months.

O'MAHONEY AMENDMENT

The Bonner committee went to the west coast where the study was being conducted late in August 1952 to see how they were getting along. The test was successful. So it was presumed that they could integrate all the depots. About that time, you gentlemen, Senator Douglas and Senator O'Mahoney, became very active on the Senate side and were responsible for getting through an amendment which became known as the O'Mahoney amendment to the 1953 Appropriation Act, which called on the Secretary of Defense to issue regulations to develop an integrated supply system for common items. A good directive was issued shortly thereafter but it did not go across service lines. That is, across Army, Navy, and Air Force lines. It called for intradepartmental improvement.

MEDICAL TEST SUCCESSFUL

Coming back to the medical test, the committee was told that the Munition Board was going to evaluate the test, get all the statistics, and then decide what they were going to do. At a later hearing, assurance was given that it had been successful and they were going to apply it to all depots.

About that time, however, came a change in the administration and Mr. Wilson and Mr. Kyes, and some of the other people who were not familiar with all this background came in, and to make a long story short, they went the other way. The Budget Bureau did not use its authority to intervene. It let the military have its own way though now it says it has supported the single-manager plans for several years.

MEDICAL TEST DISCONTINUED

In November 1954, the test was discontinued. The Hoover Commission people, Members of Congress, and others who were interested in good supply management raised a protest.

A year later they reinstated what was called the single-manager system for subsistence and clothing. That is one of the 17 commodity groups they were going to study in 1951. Since 1955 several more single managers have been set up including medical again. None had been set up since 1956 until the McCormack-Curtis amendment to the Reorganization Act was passed. This act called upon the Secretary to make more progress in common supply service management in the Department of Defense. Others have been added and there will be more. A plan for some 990,000 electronic/electrical items is being studied with the three departments contending for the job.

Mr. Chairman, as more and more of these single managers are set up, they must be tied together.

The CHAIRMAN. How many lines have been brought under the single management control?

Mr. WARD. There are six different commodity groups.

The CHAIRMAN. No groups. What are those six groups?

Mr. NEWMAN. Subsistence, medical supplies, clothing and textiles, petroleum products, administrative supplies, handtools, and hardware and related items.

The CHAIRMAN. Not automobiles, jeeps, station wagons?

Mr. NEWMAN. Not yet, sir.

Mr. WARD. There is reason to believe that is in contemplation.

The CHAIRMAN. Not communications equipment?

Mr. NEWMAN. No, sir.

Mr. WARD. I believe in that field, too, consideration is being given to a single manager. Secretary McGuire can testify with respect to that.

"SOME REAL BUYS" OF GOVERNMENT SURPLUS

Senator O'MAHONEY. Mr. Chairman, I have been looking over this exhibit which the witness handed to the chairman, for the last 5 or 10 minutes, and I find some rather extraordinary revelations. This is a document dated October 1959 entitled "Pay Dirt" published monthly by the Rex Equipment Corp., "Some Real Buys." This particular copy was addressed to Art Callahan Engineering Co., Post Office Box 181, Springfield, Ill.

Now, as I turn the pages of this I find some extraordinary exhibits, as I say. I have attempted to mark them. Gasoline and diesel driven generators, unused, 500 kilowatt, direct current, \$27,500.

The explanation of why they are unused and still surplus I do not understand. That is not given here at all.

Item after item in these pages are items of unused Government surplus property for sale by this company which issues a monthly bulletin. That in itself indicates that there is a tremendous amount of material for the disposition by the company. There is column after column. Unused Government surplus, 6:00 x 16 tire and tube, \$15.50. Well, three and a half additional. Hand truck, unused Government surplus, barrel bed, iron wheels, and so it goes down the line, until I find here at the end of the page "Austin, Western Hydraulic Crane, unused, all excess rise, \$2,750."

This is offered for circulation by the company. "Would you like to receive Pay Dirt regularly? If so, please complete the following and mail to Pay Dirt, Post Office Box 353, Dallas, Tex."

Here is an opportunity for this committee to obtain monthly this publication of Government surplus of unused material which is being sold by this equipment corporation at reduced prices.

The CHAIRMAN. I would suggest that members of the staff order this to be sent to them at their home addresses.

NEGOTIATED PROCUREMENT

Mr. WARD. Mr. Chairman, may I add something about negotiated contracting. I have some material that will be of interest to you.

The Armed Services Procurement Act, Public Law 413 of 1947, as was brought out this morning, contemplated that procurement generally would be done by advertised bids. The act was so stated. It contemplated that negotiated contracting would be the exception and not the rule. However, as the Comptroller General said this morning, 80 to 90 percent of contracting is now negotiated. Chairman Vinson of the House Armed Services Committee testified before you on June 8, 1959, in connection with the Renegotiation Bill, H.R. 7086, that 90 percent both by numbers of contracts and by dollar volume—are negotiated.

BUSINESS TO 100 LARGE CONTRACTORS

At the same time there has been a steady increase in the amount of the business that goes to the 100 large contractors. (See p. 26 of the background material on economic aspects of military procurement and supply prepared by the staff.) For the period July 1, 1950, to June 30, 1951, the 100 largest contractors got 61.2 percent of the total volume. For the period July 1, 1958, to June 20, 1959, the 100 largest companies and their subsidiaries received 73.8 percent of the total and largest 10 received 37 percent of the total. At the same time the value of fixed-price contracts have declined from 87 percent in 1951 to 59 percent in 1959 and the riskless cost-reimbursement contracts have increased during the same period from 12.7 percent to 40.9 percent. Chairman Vinson of the House Armed Forces Committee, testified that he had a study made of the quality of the Government contracting officers. He said that in his opinion:

Senator DOUGLAS. Mr. Vinson, you have had more experience in this matter than any man in the country over a long period of time. Do you share my feeling that this is probably one of the worst abuses that has crept into our Government, namely, the overstatement of costs and the excessive profits made in war contracts in the presence of such a large percentage of negotiated bids rather than competitive bidding?

Mr. VINSON. I have been disturbed about it and I had one of the staff members, the House gave me \$150,000 to build up a staff and look at the matters and this is my general counsel. He had been with the committee for 7 or 8 years. We had a study made of the qualification of the men who sat across the table with industry. I was dumbfounded and shocked at their lack of knowledge on what they were dealing with. If a man is going to negotiate a \$50 million contract or a \$100 million contract, to deal with big figures, and he is sitting across the table with a man who is employed by industry, he must know everything or else he is absolutely at the mercy of the mind and brain of the other man.

Unfortunately, the Government does not have people who have had that experience and that background in a great many instances. There are instances where they do have the background. I had a check made on all these people and I was surprised at the lack of knowledge and background. Yet they have dealt with matters involving negotiations of \$50 million or more. How could I sit across the table with some representative of the aircraft industry and talk about ballistic missiles and things of that nature, how could you, as brilliant and smart as you are, you would be absolutely at their mercy.

VALUE OF COMPETITIVE BIDS

Mr. Chairman, when contracting is done by competitive advertised bids, and that means stating minimum requirements, getting free and full competition, public openings and awards to the lowest responsible bidder, that is a protection to the bidder and to the Government. It prevents favoritism, nepotism, collusion and those other abuses which enter into the contracting. It is a protection particularly to the contracting officer. He needs a fixed rule to go by, Mr. Chairman.

Under real competitive bidding, the competition is between this supplier and that supplier, each equipped with his facts and qualified staff and the Government should profit. When it is a negotiated contract, the competition is between the contractor and the Government employee whom Chairman Vinson has described.

The CHAIRMAN. Mr. Ward, all three of us who are on this committee have been working at this problem for at least 10 years. I want to say the Defense Department in 1954 did improve on the percentage of contracts which they obtained by competitive bidding. But since 1954, and particularly in the last 2 years, there has been a decrease in the percentage dollar volume of contracts obtained by competitive bidding and corresponding increase in negotiated contracts. I think we all feel extraordinarily frustrated in that the more we talk about this matter, the more evidence we bring before the people, the worse things get.

Is there anything that we can do?

POSSIBLE IMPROVEMENTS

Representative CURTIS. That is what we are going to try to find out.

The CHAIRMAN. I want Mr. Ward's advice. He has been working on this for 10 years.

Mr. WARD. In my opinion there are a lot of things that can be done.

The CHAIRMAN. Now tell us.

Mr. WARD. First of all, we should not have rival groups buying the same sort of thing. It is inflationary and wasteful. If you have the best staff from three or four or five or eight different agencies and put them to work buying, they will do a whole lot better job. A trained, high-caliber career DOD Supply Corps is needed.

Representative CURTIS. You are talking about common use items?

Mr. WARD. That is so with any other items also.

COMMON MANAGEMENT

The CHAIRMAN. You are saying this common management should be extended into the field of transportation equipment and into communications? Is that correct?

Mr. WARD. Where there is more than one group that is using the same sort of material you should have common staff and facilities to do the common jobs of procurement, storage, transporting, distribution, and disposal.

There should be a great deal more advertised bidding. It is easy to get in the habit of negotiated contracting. When you negotiate a contract once, the contractor gets the know-how and he is on the inside track and when more of the same thing comes up he is in the best position to get the business. That is one reason for the constant concentration in the ones who are already getting the big business. It is progressive and it is riskless when we use so many cost-performance contracts.

ADMIRAL RICKOVER'S USE OF ADVERTISED BIDS

Representative CURTIS. May I comment on this at this point: Admiral Rickover testified, and he handled the procurement of the atomic submarine, that a large percentage, and I forget the percentage figure he used, was procured under advertised bids. The point I am making is that even in a piece of brandnew, highly secret weapon, so much of it is common-use components. The radios aboard, the pipes, and all of that. If one is dedicated to this business of getting the best price which you can by advertised bids, you can go about doing it. I believe the record of the cost of the atomic submarine bears that out because under Admiral Rickover it was procured below estimates.

Mr. WARD. I think that is right. Expert procurement people will tell you that there is a great deal of commonality in the materials, the components, that go into ships and airplanes and tanks and various other large equipments.

Instead of buying the whole end item by a negotiated contract, a great many of the components could be bought on competitive bids, the materials that go into it, which would constitute by far the greatest part of the contract.

You could get more advertised contracting that way. There could also be a great extension of the use of the open end contracts to prime and subcontractors so the Government will obtain competitive prices and overhead costs of separate procurement will be reduced.

The CHAIRMAN. Is this to be done by a change in the law or is it to be done by improved administration or is it to be done by demanding disciplinary action against those who refuse to carry out the process of competitive bidding? How do we take hold of this?

NEED FOR TOP-SIDE MANAGEMENT

Mr. WARD. You mentioned that to Administrator Floete, this morning. He has a broad charter in the GSA Act which I just read. But he is not able to carry it out. He is not strong enough to carry it out

against the military unless the Bureau of the Budget, and I would say the President, sides in with him and helps in that problem. A top-side management problem is presented.

Mr. Floete is not at the Secretary level. He does not have the tremendous staff and backing that the military have through associations, leagues, big business and the like. It is an impossible thing without Executive Office assistance. There must be the constant pressure from committees of Congress, too.

Representative CURTIS. May I interject here because I think it was your staff work which brought this out before and it is a very important point.

TURNOVER IN SECRETARIES, ETC.

The turnover in the Secretaries and the Assistant Secretaries of the Defense Establishment, the average term is about a year and a half or 2 years. They are barely in the job when they are out again. I have heard many military officers say, "We will just relax until that particular fellow who might be causing a little trouble goes." Then they are back in business again.

Mr. WARD. In connection with that, on page 205 of the staff report, is a list of the various Secretaries, Assistant Secretaries and Under Secretaries who have been in the Department of Defense since the creation of the DOD in 1947.

Representative CURTIS. Does that show an average length of tenure? Is it around a year and a half or two years?

Mr. WARD. Something like that.

Representative CURTIS. That is one of our problems.

Senator O'MAHONEY. Mr. Chairman, may I ask Mr. Ward this question: As I look at that chart over there, the volume of procurement expenditures for fiscal 1959 was \$23.8 billion; is that right?

Mr. WARD. Yes.

EIGHTY-SIX AND FOUR-TENTHS PERCENT NEGOTIATED CONTRACTING

Senator O'MAHONEY. And 86.4 percent of that procurement was purchased by negotiated contract.

Mr. WARD. That is right, sir.

Senator O'MAHONEY. 86.4 percent of \$23.8 billion is \$20,600 million, is it not?

Mr. WARD. That is correct.

Senator O'MAHONEY. That means that at least a fourth of the entire budget for procurement—I mean the national budget—was expended on negotiated contracts.

Mr. WARD. Yes.

LIMITING NEGOTIATION BY LAW

Senator O'MAHONEY. Would it not be a simple thing to provide by law a limitation of the number of negotiated contracts which could be made for common-use items?

Mr. WARD. In contracting, I think, Senator O'Mahoney, you do need to negotiate under certain conditions. These are the ones that

were used to sell this Armed Services Procurement Act to Congress, (1) when you do not have a competitive market, you must negotiate and (2) when you can't write a specification. But the law has been abused.

Senator O'MAHONEY. Is it necessary by negotiated bids to sell some of the material that was mentioned in this "pay dirt" circular that you entered?

Mr. WARD. No.

Senator O'MAHONEY. Could that not be excluded by law?

Mr. WARD. My point was that when you go to buy those materials, it is conceivable that you may not at the time have a competitive market. Sometimes you do have to negotiate when you can't get what you want because it is in short supply. That is one situation.

Then when you cannot draw up a specification for some new thing that is to be built, you have to negotiate that sort of contract because you cannot describe what you want. But you can buy the materials that go into it by competitive bid and you can get bids generally on common items if you want to.

Senator O'MAHONEY. Have you secured any information about the type of items that have been purchased by negotiated contract?

Mr. WARD. It is mostly heavy goods and missiles and so on. A great many common-use items or components of these heavy items could be bought by competitive bids. It is not the question so much of the legislation; it is carrying out the intent of the legislation, Senator.

Senator O'MAHONEY. That section which carries a provision by which a department, such as the Department of Defense, may be exempted from the terms of the legislation is essentially a bad one.

Mr. WARD. The exceptions were too broad. The act says that the general rule is to purchase by competitive bids; that is, written competitive bids. But it listed 17 different exceptions when they might negotiate, and those are so broad, there are so many loopholes, they are able to get most anything under those various exceptions. (See p. 84, staff report.)

On page 91 of this report (staff report) is a breakdown, "Small Business Procurement by Program." The important thing from the standpoint of our hearings on the impact of procurement on the economy is the life and death power that is in the hands of the contracting officers, who if Mr. Vinson is right, are not particularly qualified. The impact of their actions on the economy of the country is enormous because of the billions of dollars involved in the negotiated contracts. That is really a serious thing.

The CHAIRMAN. Do you think we should revise the legislation and could we reduce the 17 exceptions?

RETURN TO ADVERTISED BIDS

Mr. WARD. I believe it should be considered. I would like to see the Congress go back to the use of Public Law 3709, which was the competitive bid statute which was built up over a period of 150 years or something like that and which required real competitive bidding.

Under that act which was repealed insofar as the military is concerned you had to prove to the Comptroller General, and not to someone in the Pentagon that it was necessary to negotiate. Returning to this principle would go a long way.

That act was rescinded when Public Law 413 was passed in 1947 insofar as the three military services, the Coast Guard and NACA were concerned. The five agencies were given that particular flexible authority.

PRESIDENT TRUMAN ADMONISHES AGAINST EXCESSIVE NEGOTIATION

I might say, also, that when the President signed that act (Public Law 413) he wrote a letter to each one of the five agencies who were receiving the broad authority. I have a copy of that letter, dated February 10, 1948, which will be placed in the record (the letter referred to follows):

THE WHITE HOUSE,
Washington, February 10, 1948.

HON. JEROME C. HUNSAKER,
Chairman, National Advisory Committee for Aeronautics,
Washington, D.C.

MY DEAR MR. HUNSAKER: I have today signed H.R. 1300 which has been passed by the Congress to facilitate procurement of supplies and services by the Departments of the Army, the Navy, and the Air Force, the Coast Guard, and the National Advisory Committee for Aeronautics, and for other purposes.

H.R. 1300 replaces a series of intricate and sometimes conflicting regulations which have impaired the efficient operations of procurement officers in the military agencies, the Coast Guard and the National Advisory Committee for Aeronautics. I know that under your administration the new Act will make possible more efficient and systematic procurement.

The act states the basic policies of the Government with respect to procurement by the armed services. It declares that a fair proportion of all procurement shall be placed with small business concerns. It also states that all purchases and contracts for supplies and services shall be made by advertising, except under circumstances specified in the Act where exceptions to this general policy may be made.

This bill grants unprecedented freedom from specific procurement restrictions during peacetime. That freedom is given to permit the flexibility and latitude needed in present-day national defense activities. The basic need, however, remains to assure favorable price and adequate service to the Government. To the degree that restrictions have been diminished, therefore, responsibility upon the Defense Establishment has been increased. There is danger that the natural desire for flexibility and speed in procurement will lead to excessive placement of contracts by negotiation and undue reliance upon large concerns, and this must not occur.

For these reasons, I am asking you to specify detailed standards to guide your procurement officers concerning the placing of business with small concerns and the circumstances under which they may waive the general policy of advertising for bids. It is of great importance in procurement matters to establish standards and definitions to guide all personnel who have authority to place contracts. Otherwise, differences in interpretation and policies may result in imprudent contracts and give rise to doubts about the wisdom of this new procurement system.

As soon as practicable, I would appreciate a report from you concerning your general plans for implementing this act. I am also asking you to report annually, as of the end of each fiscal year, the total value of contracts negotiated under the individual paragraphs of section 2(c), and the total value of contracts placed with small business concerns during the year.

Sincerely yours,

HARRY TRUMAN.

Mr. WARD. This went to the five agencies named in the Armed Services Procurement Act:

I have today signed H.R. 1300, which has been passed by the Congress "to facilitate procurement of supplies and services by the Departments of the Army, the Navy, and the Air Force, the Coast Guard, and the National Advisory Committee for Aeronautics, and for other purposes."

H.R. 1300 places a series of intricate and sometimes conflicting regulations which have impeded the efficient operations of procurement officers in the military agencies—

and so on.

The act states the basic policies of the Government with respect to procurement by the armed services. It declares a fair proportion of all procurement shall be placed with small business concerns. It also states that all purchases and contracts for supplies and services shall be made by advertising, except under circumstances specified in the act where exceptions to this general policy may be made.

This bill grants unprecedented freedom from specific procurement restrictions during peacetime. That freedom is given to permit the flexibility and latitude needed in present day national defense activities. The basic need, however, remains to assure favorable price and adequate services to the Government. To the degree that restrictions have been diminished, therefore, responsibility upon the Defense Establishment has been increased. There is danger that the natural desire for flexibility and speed in procurement will lead to excessive placement of contracts by negotiation and undue reliance upon large concerns, and this must not occur.

I will not read the rest of it.

CONGRESS INTENDED NEGOTIATION TO BE EXCEPTION

So the Congress said negotiations should be the exception and the President admonished the agencies about the excessive use of it.

The CHAIRMAN. But it has become the overwhelming rule.

Mr. WARD. That is right.

ADVERTISED BIDS HELP SMALL BUSINESS

Representative CURTIS. I might say that the Small Business Committees of the House, and I think the Senate, have made continuing studies into this area of negotiated and advertised bids. I am familiar with the studies up to 3 or 4 years ago. I am sure they are no different today. But it showed as the percentage of advertised bids went up, the percentage of participation of small business went up. As negotiated bids percentagewise went up, the participation of small business went down, which is another very interesting fact.

The CHAIRMAN. Are there any other questions?

EXCESS PROPERTY LISTS

Representative CURTIS. There is one thing, Mr. Ward. You gave us samples of this Department of Defense excess personal property monthly list. I happen to have as my example the one that is dated April 1958. Do they put those out each month?

Mr. WARD. Yes.

Representative CURTIS. Just so that we will have in the record what we are talking about, and I have had these before and I have made some speeches on the floor of the House. This is a document that is 234 pages, and that is about what they are each month, and I have just roughed out roughly 120 items on each page and if you multiply that out you have about 30,000 items.

Then you take a look at some of these items; some of them in there are worth a million dollars each. I will grant you not too many, but there are some like that. There are others that may be only worth a couple of cents each, but they are in terms of million quantities.

Just a review of this list, and asking the question how did that ever get in the garbage pail, makes one wonder or certainly makes me wonder about our procurement practices. I am a little bit concerned of calling too much attention to the garbage pail method of judging procurement.

Having served in the military for 4 years in World War II, I found one way of disposing of surplus property, and that is to chop a hole in the bottom and put it under the water. I have seen it done. I have seen holes dug where surplus property is buried.

I do not want to encourage the military to dispose of surplus property in that fashion, so that it will not show up in the garbage pail and questions will be asked. I am anxious to improve our surplus property disposition methods, and I think we can improve them considerably. I hope a way to correct the contents of the garbage pail is to go over this kind of list and then dig into the procurement practices which created it.

I know that top ranking generals and admirals come before the committees of Congress and defend this system, in the light of this glaring evidence that it is not working efficiently. They make a constant defense of each little thing, saying this is right and that is right and make constant resistance to the actual edicts of Congress, the laws of the land which have been passed to correct these inefficiencies. They avoid trying to carry out some of these things that Congress has looked into time and time again, and says this must be stopped. They have been ordered to stop and as soon as whoever has issued the order goes out of the Defense Department as a civilian Secretary or Assistant Secretary, they start up all over again.

I have been in it now for 10 years. Enforcement of discipline at the high level in my judgment probably is the answer. There may be good to be attained in a court-martial of a top ranking admiral or general who has been subverting this. Maybe that would be the best way to stop it right down the line. I am hopeful that in these studies we will be able to pinpoint the thwarting of the will of Congress a little more.

INTEREST OF JOINT ECONOMIC COMMITTEE

If I may, Mr. Chairman, because I was not here this morning, I did want to get my views in why it has become necessary for the Joint Economic Committee to get into this area. In our special studies under the special staff into the problem of economic growth, employment, and price stability, time and again in the committee

hearings and the papers prepared for us, it was pointed out that military procurement being so large affected the economy in our recessions and certainly affected the orderly growth of the economy of this country.

IMPACT ON SMALL BUSINESS

We see its impact in the small business sector. I have always argued that the basic reason for the Small Business Administration is because when the Federal Government must go into the market heavily in military procurement. By nature—and this is not said in adverse criticism—the military procurement officers will deal with the larger companies in preference to small concerns. They are more sure and there is no criticism if a contract with General Motors might go wrong. But when something in a contract with a good, small company in St. Louis, Mo., whose name is not widely known, goes wrong, they say "Why did you ever deal with the company?"

I think it is necessary in these periods of big Federal procurement to try to maintain the orderly balance that normally exists in our economy between the big companies and the small companies. The small companies are our growth companies, the new companies, the ones that are trying to show through their efficiency and right ideas that they are entitled to become larger.

So it becomes important there, to keep that balance. Offshore procurement is another very big factor. I doubt if we will have time to touch it. But it is a very important thing in the Federal Government's expenditure picture from the standpoint of the objectives of both our defense and building the economies of friendly countries abroad.

This question of "buy American," the exception to the Reciprocal Trade Act where we get into considerations of defense. Procurement practices, are altered even to the extent that depressed areas are granted in many instances special consideration, which well might be a good thing. This whole subject is so large in our economy that it becomes necessary, I believe, for a committee such as ours, which is not legislative, to look into it, to try to get the bigger picture.

SYSTEMS, NOT INDIVIDUALS, AT FAULT

I want to say as these hearings go on, at this time, that although my remarks—and I have already made some which are adverse criticism towards some of the practices of some of our military leaders—I do not want to have my remarks really in that context. I am not criticizing individuals as much as I am criticizing systems.

I think the very men that I might criticize as individuals are splendid people. But I look for errors in the system. I am convinced that the system is not right and that much can be done to improve it.

As these hearings go on, if I am critical, and I will be, I do not want it to be taken in any personal sense at all. I was introduced to this subject during the 4 years when I was in the Navy in World War II. It is a most difficult job. The ablest men that we have in our country would be making mistakes and will constantly make mistakes. I do not object to mistakes being made.

NEED TO PREVENT REPETITIVE MISTAKES

What I object to is this infernal insistence that mistakes do not occur and then covering up and hiding them and a refusal to see the mistakes and learn by them so that we can improve this system.

Senator O'MAHONEY. Will the Congressman yield?

Representative CURTIS. Yes. I have just finished, Senator.

Senator O'MAHONEY. Congressman Curtis, I would like to ask you with respect to that garbage pail you have been talking about, what the definition of it is as it stands there before you? Is it signed by anybody?

Representative CURTIS. Yes. This garbage pail inventory, no. This is the Department of Defense, excess property, and it has their seal on it, and it has a cancellation date on this one which I am just using as a sample. The April 1958 has a cancellation date of August 1, 1958.

This other one, a more recent one, apparently they have changed the format, January 1960, is actually signed by Herman C. Hangen, director of Armed Forces supply support center. That has a cancellation date of May 1, 1960.

Senator O'MAHONEY. Is he still in the Government?

Representative CURTIS. I presume he is. This is 265 pages as opposed to 234 pages.

Senator O'MAHONEY. Will the Congressman read the first paragraph on the front page?

Representative CURTIS. "This index of DOD excess personal property is issued by the Utilization Division, Armed Forces Supply Support Center, Washington 25, D.C., under authority contained in Department of Defense Directive 5154.14 and Department of Defense Instruction 4160.9."

(The material referred to follows:)



June 23, 1958
NUMBER 5154.14

ASD(S&L)

Department of Defense Directive

SUBJECT Establishment of the Armed Forces Supply Support Center

- Refs:**
- (a) DOD Directive 4000.8, Basic Regulations for the Military Supply System
 - (b) DOD Directive 5126.1, Assistant Secretary of Defense (Supply and Logistics)
 - (c) DOD Directive 4130.2, Development and Maintenance of the Federal Catalog System within the Department of Defense
 - (d) DOD Directive 4120.3, Defense Standardization Program
 - (e) DOD Instruction 4140.12, Utilization of Department of Defense Materiel Assets
 - (f) DOD Directive 5126.14, Department of Defense Materiel Secretaries' Council.

I. AUTHORITY, PURPOSE AND INTENT

- A.** Pursuant to the authority contained in the National Security Act of 1947, as amended, and Reorganization Plan No. 6 of 1953, and in furtherance of the basic policy set forth in reference (a), the Armed Forces Supply Support Center is established within the Department of Defense as a joint center of the military services under the authority, direction and control of the Secretary of Defense, with functions, responsibilities and relationships as set forth below. The Assistant Secretary of Defense (Supply and Logistics) shall, within established procedures, act for the Secretary of Defense in carrying out the provisions of this directive.

- B. The purposes and objectives of the AFSS Center are:
1. To provide the most effective and economical administration of certain common supply functions of the military services.
 2. To promote and coordinate integrated supply management among the military services concerned with common materiel.
 3. To develop means for the elimination of any undesirable inconsistency, duplication and overlapping among supply operations of the military services, and for the elimination of any unnecessary administrative procedures.
- C. The AFSS Center will not engage in the determination of materiel requirements, or in procurement, inventory control, storage or distribution operations.

II. MODIFICATION OF DIRECTIVES

This directive modifies the provisions of references (c), (d) and (e), which will be changed accordingly.

III. DEFINITIONS

- A. Commercial items of materiel - those items required by the military services, which are generally used throughout the civilian economy and which are available through normal commercial distribution channels (frequently referred to as "off-the-shelf" items).
- B. Non-commercial common items of materiel - those items required by two or more of the military services, which are not generally used by the civilian economy, including items of similar manufacture or fabrication which may vary among the services as to color, finish, marking, etc.

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5154.14**IV. ORGANIZATION AND FUNCTIONS****A. Scope**

The AFSS Center will confine its activities to the fields of "commercial" and "non-commercial common" materiel, except to the extent that the cataloging, standardization, and materiel utilization programs apply also to non-commercial, non-common items of materiel.

B. Management

The AFSS Center shall operate under the general direction of a council, the name of which shall be the Armed Forces Supply Support Council, and under the direct supervision of a Director.

C. Responsibilities of the AFSS Council and the Director

1. The AFSS Council provides a fully-representative executive group, responsive to the military services, but under the direction of the Secretary of Defense, to exercise general direction over the work of the AFSS Center. The principal functions of the AFSS Council will be to approve and review progress in accomplishing the work projects established by the Director of the AFSS Center; to approve appointments to key positions within the AFSS Center on the recommendation of the Director; to make decisions to the extent authorized, based upon the analyses and recommendations submitted by the Director, to be implemented through appropriate channels within the military services; and to make recommendations (including additions to and changes in DOD Directives and Instructions) for decisions and implementation by responsible officials of the Department of Defense. The AFSS Council shall delegate to the Director the authority necessary to carry out the functions of the AFSS Center.
2. The Director shall be responsible to the AFSS Council and shall be in full charge of the internal management of the AFSS Center, with responsibility for supervising current operations, planning and conducting approved

work projects, determining the data required, and obtaining such reports and information as needed directly from the military services. The Director will establish work projects, prepare analyses and recommendations, and select key personnel, for the review and approval of the AFSS Council.

D. Functions of the AFSS Center

The AFSS Center is charged with the performance of the following functions in accordance with the applicable DOD Directives and Instructions.

1. Administers the Federal Catalog Program in accordance with reference (c). The AFSS Center will prepare and publish catalog data and insure conversion of military supply systems to the exclusive use of Federal Catalog data.
2. Administers the Defense Standardization Program in accordance with reference (d). The AFSS Center will recommend the assignment of responsibility among the military departments, monitor studies, and monitor the development of specifications and standards in accordance with approved plans and schedules.
3. Administers the Defense Materiel Utilization Program in accordance with reference (e). In this connection the AFSS Center develops procedures, to be executed by the Commodity and Area Coordination Groups after approval by the AFSS Council, to assure the cross-utilization of assets in order to minimize procurement, stockage and transportation.
4. In accordance with specific study projects, conducts analyses of the operations of the supply systems of the military services concerned with commercial and non-commercial common items of materiel, to obtain optimum integration in the interest of increased military effectiveness and economy. Such studies will include the development of practical steps to foster efficient interservice utilization of assets; to increase the

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degree of commonality of items; to obtain greater consistency in requirements computation practices (factors, cycles, lead times and levels) and distribution patterns; and to achieve closer working relationships among the organizational elements concerned with the management of common supply, i. e., inventory control, procurement, distribution and standardization. Particular attention shall be given to such matters in the commodity areas covered by Single Manager assignments and the Single Department Procurement assignments.

E. Relationships with OASD(S&L)

1. The AFSS Center shall conduct its work programs in accordance with objectives and policies developed or approved by the Assistant Secretary of Defense (Supply and Logistics).
2. Specific projects for the AFSS Center will be established by the Director with the approval of the AFSS Council, based on proposals made by the AFSS Center itself, including any member of the AFSS Council, any military service, or the OASD(S&L). The Assistant Secretary of Defense (S&L) and the Materiel Secretaries of the Military Departments shall be kept advised of all projects.
3. Reports of the AFSS Center Director to the AFSS Council will be transmitted concurrently to the Assistant Secretary of Defense (S&L) and to the Materiel Secretaries of the Military Departments. If action is not taken by the AFSS Council within a reasonable period, the Assistant Secretary of Defense (S&L) will call for a report from the Director and the AFSS Council and obtain action through appropriate channels.
4. The Assistant Secretary of Defense (S&L) shall review and evaluate the work of the AFSS Center and may call for reports on its work at any time. Such reports shall be furnished simultaneously to the Materiel Secretaries of the Military Departments.
5. In the performance of the responsibilities outlined in this directive, the Assistant Secretary of Defense (S&L) will

utilize the advice and assistance of the Materiel Secretaries' Council in accordance with the procedures established in reference (f).

F. Staffing

1. **AFSS Council.** The AFSS Council shall consist of a Deputy ASD(S&L) as Chairman, a principal military representative of general or flag rank appointed by each of the four military services, and the Director of the AFSS Center.
2. **The AFSS Center.** The Director and Deputy shall be appointed by the Secretary of Defense after considering recommendations of the Materiel Secretaries' Council. The Director will be a civilian and the Deputy Director a military officer. Division Chiefs and the professional staff of the Analysis Staff shall be appointed by the Director with the approval of the AFSS Council. These positions will be filled by either military or civilian personnel. Staffing of the Analysis Staff and the Materiel Utilization Division will be on a joint basis. The normal tour of duty for military assignees (other than those on temporary detail) will be four years.

G. Administration

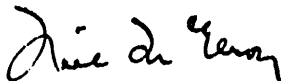
1. The method of financial support and funding for the AFSS Center shall be arranged by the Assistant Secretary of Defense (Comptroller).
2. Administrative services required in support of the activities of the AFSS Center shall be arranged by the Office of the Secretary of Defense.

V. IMPLEMENTATION

- A. Each military service shall designate its member of the AFSS Council, and an alternate who shall have the power to act in the absence of the principal member. The Secretary of Defense shall appoint the Director and Deputy Director of the AFSS Center.

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- B. Within ninety days after the date of this directive, regulations, procedures, organizational and staffing plans, and arrangements for financial and administrative support, required to implement the provisions of this Directive, will be developed and coordinated with the military services by the Chairman of the AFSS Council and submitted to the Secretary of Defense for approval. The Assistant Secretary of Defense (S&L) will be responsible for the coordination of these matters with other cognizant elements of the Office of the Secretary of Defense. The military services, ASD(S&L), ASD(Comptroller), ASD(MP&R), and the General Counsel will detail staff assistants to work with the AFSS Council and the Director in the accomplishment of the above steps.



Secretary of Defense



NUMBER 4160.9
DATE January 11, 1960

Department of Defense Instruction ^{ADD (B&I)}

SUBJECT Policy Governing the Utilization Screening of Excess Personal Property Under the Control of the DoD

- References:
- (a) DOD Instruction 4160.9, "Policy Governing the Utilization Screening of Excess Personal Property Under the Control of the DoD", 25 September 1958 (cancelled herein).
 - (b) DOD Instruction 4160.4, "Preparations for Sale and Sales of Surplus Personal Property, Including Foreign Excess"
 - (c) DOD Directive 4160.8, "Fair Value Formula and Condition Codes Applicable to Excess and Exchange-Sale Type Personal Property Within the DoD"
 - (d) DOD Instruction 4160.14, "Policy and Procedures Relating to Donation of Surplus Personal Property to Designated Activities of Special Interest to the Armed Services"
 - (e) DOD Directive 4140.1, "Inventory Management Policies"
 - (f) DOD Instruction 4140.3, "Management of Materiel in Long Supply"
 - (g) DOD Instruction 4215.12, "Inventory of DoD-Owned Machine Tools and Other Production Equipment"
 - (h) DOD Directive 5154.14, "Establishment of the Armed Forces Supply Support Center"
 - (i) DOD Directive 4140.13, "Policies for the Transfer of DoD Supply System Inventories"
 - (j) DOD Directive 7420.1, "Regulations Governing Stock Fund Operations"
 - (k) DOD Directive 7410.4, "Regulations Governing Industrial Fund Operations"
 - (l) DOD Directive 7510.1, "Uniform Pricing Policy for Materials, Supplies and Equipment Financed by Military Appropriated Funds"

I. REISSUANCE AND CANCELLATION

This Instruction reissues reference (a), governing the reporting and screening of excess personal property under the control of the Department of Defense. Reference (a) and Report Exemption Symbol DD-S&L(EXR)89 are hereby cancelled.

II. DEFINITIONS

A list of definitions of terms used in this Instruction is attached as Enclosure 2 hereto.

III. APPLICABILITY

This Instruction is applicable to the Military Departments, world-wide; prescribes utilization screening requirements for excess personal property

under the control of DoD (including contractor inventory and production equipment in contractors' plants), and prescribes criteria for determining excess personal property which is subject to centralized screening.

IV. POLICIES

A. Criteria for reporting excess personal property for centralized screening

1. All excess personal property designated as "Reportable Property" in accordance with reporting criteria in Schedule I, Enclosure 1, will be reported for utilization screening purposes. Excess personal property which does not meet reporting criteria contained in Schedule I, Enclosure 1, is designated as "nonreportable property" and is not required to be reported for utilization screening purposes prescribed by this Instruction.
2. All "Reportable Property" which meets both the minimum "Line Item Value" and the minimum "Reportable Condition" specified in Enclosure 1, except as otherwise prescribed in this Instruction, will be reported for utilization screening as follows:
 - a. Items with a line-item value of \$3,000, within the United States, Puerto Rico and the Virgin Islands, or more will be reported to the Armed Services Supply Support Center. Such items will be screened by the Center and then by the General Services Administration, in accordance with Schedule I, Enclosure 1.
 - b. Items with a line-item value below \$3,000, within the United States, Puerto Rico and the Virgin Islands, will be reported directly to the GSA Regional Office in the geographic area where the property is located for GSA-DoD utilization screening with other military and federal civilian agencies within the region.
 - c. Items which are in overseas areas outside the United States, Puerto Rico and the Virgin Islands, with a line-item value of \$5,000 or more will be reported to the Center for DoD utilization screening only.
3. Reports listing excess personal property required to be reported for centralized screening by the Center or the GSA will be submitted on Standard Form 120 (SF 120), Report of Excess Personal Property, except as provided in 4. below.
4. Reports listing excess personal property having a line-item value of \$3,000 or more, and for which screening is required within the DoD only, will be submitted to the Center on SF 120, or by such other methods as may be stipulated by the Center. Reports covering property located in overseas areas (outside the United States, Puerto Rico and the Virgin Islands) may be submitted to the Center

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on AF IPOs or by means and methods stipulated by the Center which are readily adaptable to mechanized or electronic processing by the Center.

5. Excess personal property which is nonreportable may be reported for centralized screening by a Military Department and will be screened provided the cognizant screening activity determines that the property has some reasonable prospect of utilization.
6. The Director of the Center is authorized to issue, by appropriate means, detailed instructions for the preparation, routing, correction and withdrawal of excess property reports. Such instructions will be consistent with excess property reporting requirements of GSA. Center instructions which are applicable to reports of property requiring only DOD screening will specify minimum requirements for information essential to effective centralized screening as determined by the Center. Reports covering excess personal property located in overseas areas will, whenever feasible, as determined by the Military Department concerned, be submitted to the appropriate Inventory Control Point in the United States and concurrently to the Center. When reports are submitted in this manner, adequate coordination will be effected between the Center and the Inventory Control Point to prevent the issuance of conflicting redistribution instructions.

H. Utilization Screening of Excess Personal Property which exceeds retention limit

Personal property which has been determined to exceed the authorized retention limit as established by the owning Military Department in accordance with references (e) and (f) will be promptly subjected to utilization screening or disposal as appropriate, as prescribed herein.

G. Authorized screening activities

1. The Military Departments will keep the Center and the GSA advised of the activities authorized to screen and acquire excess personal property. The Military Departments will specify the categories of property for which information is required. Authorized screening activities will review available assets information circularized for utilization screening in accordance with this Instruction to insure efficient management and maximum utilization of DOD assets for current and future requirements to the extent it is economically feasible to do so. Screening by manual, mechanized, or electronic means will be employed as appropriate.
2. Excess personal property circularizations by the Center among Federal civilian agencies will be restricted to the Department of

Health, Education and Welfare and other civilian agencies approved by GSA (except in overseas areas not serviced by GSA) and such circularizations to the GSA approved agencies will be limited to property which is not required to be reported to GSA.

D. Dissemination of excess property information

1. The Center will circularize Excess Listings to Inventory Control Points (as defined in reference (e)) and to other military activities and commands specifically authorized by the Military Departments to screen and acquire certain categories of excess personal property through the Center. The Military Departments will review the distribution of these Excess Lists by the Center at least annually, and authorize such changes thereto as may be considered necessary or desirable. Other means may also be used to circularize excess-property information when considered appropriate by the Director of the Center. When means other than Excess Listings are used, such as direct communications with authorized screening activities, adequate screening will be accomplished in a manner consistent with the scope and intent of this Instruction.
2. The GSA will circularize or otherwise publicize excess property information reported in accordance with IV, A.2.b. simultaneously among Military and other Federal agencies primarily within the GSA region where the property is located. Such information will be furnished inventory control points and other military activities within the region authorized by each Military Department to screen and acquire property. Upon request of a Military Department, information concerning specific categories of items reported direct to GSA will be furnished by GSA to the cognizant ICP, regardless of location.

E. Reports of excess property to GSA

1. Reportable property will be reported to GSA as follows:
 - a. Directly to appropriate GSA regional office in accordance with Section IV, A.2. Withdrawals will be submitted directly to GSA.
 - b. Upon completion of DoD screening by the Center in accordance with Section IV, A.2. Withdrawals will be submitted directly to the Center.
 - c. Directly to appropriate GSA regional office by Single Manager operating agencies (all reportable line items meeting the minimum dollar value and condition criteria) when determined to be DoD excess personal property. Withdrawals will be submitted directly to GSA.

4160,9
Jan 11, 60**F. Deviation from screening procedures**

1. The Director of the Center may authorize specific deviations from the screening provisions of DOD Directives and Instructions as necessary to accomplish emergency action with respect to screening excess personal property reported to the Center provided that as to property which is required to be reported to ODA, the concurrence of ODA is obtained.
2. The Director of the Center may extend the Automatic Release Date (under exceptional circumstances) on property reported to the Center to resolve or eliminate any problems incident to the transfer of excess personal property or to permit further screening to exhaust all potential for utilization of specific property.
3. Copies of deviation authorizations issued in accordance with 1. above will be furnished by the Director of the Center to the Assistant Secretary of Defense (Supply and Logistics).
4. The ODA Regional Offices may extend the Automatic Release Date (under exceptional circumstances) on property reported directly to ODA for simultaneous screening (line items under §1,000) in order to resolve or eliminate any problems incident to the transfer of excess personal property or to permit further screening to exhaust all potential for utilization of specific property.
5. A copy of each notice extending the automatic release date issued by the Center or ODA will be furnished the reporting activity and its respective Military Service Headquarters.

G. Special Reports and data

1. The Center will prepare and submit such special reports relating to excess personal property as may be directed by separate action by the Assistant Secretary of Defense (Supply and Logistics) or prepare and submit special reports requested by the various Military Services within the purview of DOD policies and procedures.
2. The Center will obtain from the Military Services, the ODA, other Government agencies, and from other sources, statistics that relate to screening, utilization, or other disposition of DOD property for the preparation of reports as may be required by the ASD(S&L).
3. The Director of the Center will compile appropriate data in order that:
 - a. The efficacy of the DOD policies contained herein may be properly evaluated.
 - b. The desirability of continuing or revising the policy may be determined.

- c. The DoD may consider from time to time the advisability of recommending to GSA changes to the reporting criteria contained in Schedule I. Statistical data on reporting and utilization of excess personal property will be developed by the Center and submitted by the Director to AHD(S&I) at least annually together with recommended changes to reportable property categories as appropriate.
- d. The Military Departments will separately prepare and submit reports relating to the screening, utilization, and disposition of DoD-owned machine tools and other production equipment listed in Enclosure (h) of reference (g). Specific reporting format for this purpose will be otherwise prescribed.

II. Use of Federal Catalog Data in Utilization Screening

1. Maximum use will be made of the Federal Catalog classification and identification data assigned to personal property in order to facilitate more efficient and economical utilization screening. Full item descriptions (as prescribed in the Center instructions for preparation of NY I&O reports) will be used for all property required to be reported to GSA unless specifically otherwise authorized by GSA. Whenever Federal Catalog data is not reasonably available, adequate commercial descriptions understandable by the layman will be used. Production Equipment Codes will be used on items of machine tools or other production equipment listed in Enclosure (h) of reference (g).
2. Reports of excess personal property submitted to the Center for property not required to be reported to GSA and for property in overseas areas may contain minimum item descriptions consisting of Federal Stock Number and noun nomenclature, as agreed upon between the owning Service and the Director of the Center.
3. Cataloging Handbook References will be used as necessary to assist in determining whether or not property is "reportable" or is not required to be reported in accordance with Schedule 1. Cataloging Handbook H2-1, Part 1, defines, describes, and categorizes property by Federal Supply Groups and Classifications. Cataloging Handbook H2-2, Part 2, is a numerical index of classifications of property. Cataloging Handbook H2-3, Part 3, is an alphabetic index of all personal property related to Federal Supply Groups. The DoD Directory of Metalworking Machinery provides Production Equipment Codes (PEC) for reporting metalworking machinery. Directories covering other categories of Industrial Production Equipment (IPE) as they are released by the Center will be utilized in reporting excesses.

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Jan 11, 60**I. Reporting special categories of excess property**

1. The instructions of the Center will prescribe special reporting and screening instructions for certain categories of excess personal property designated by ASD(S&L) or the GSA. The following categories of excess personal property will be reported in accordance with the Center's instructions:
 - a. Metalworking machinery (FBO 34) and other production equipment listed in Enclosure (2) of reference (g), including items in private contractors' plants. After thirty (30) days screening by the Center, advice of availability to GSA, when required, will be forwarded by the Center to the appropriate GSA office.
 - b. Typewriters.
 - c. Excess Printing, Binding, and Blank Book Equipment and Supplies.
 - d. Aircraft, specified types and models which require screening by the GSA central office.
 - e. Excess property located at installations due to be discontinued.
 - f. Property confiscated by the Treasury Department, Bureau of Customs, and reported for screening by DoD.
 - g. Excess standard forms (bulk supplies) except obsolete forms.

J. Screening of contractor inventory

1. Contractor Inventory, other than Production Equipment as defined herein, is not required to be reported to the Center or to GSA. However, it may be reported to the Center for DoD utilization screening not to exceed thirty (30) days whenever the Service having jurisdiction over the property determines that such screening is beneficial and may be accomplished within the time limitations imposed for plant clearance dates.
2. That part of Contractor Inventory defined herein as Production Equipment and listed in Enclosure (2) of reference (g) will be reported to the Center for DoD utilization screening not to exceed thirty (30) days when such Production Equipment meets the reportable dollar value and condition codes listed in Schedule I. Contractor Inventory reports will be clearly identified as Contractor Inventory. No disposal action shall be taken until completion of utilization screening.

3. The management, utilization, and disposal of all residue Contractor Inventory, including Production Equipment, will be accomplished in accordance with the policy and provisions of the Armed Services Procurement Regulations.

K. Length of screening cycle (Calendar days unless otherwise specified)

1. The screening cycle for property requiring only DOD screening, i.e., property located in foreign areas and property not required to be reported to the GSA will include specified time periods for utilization screening and screening for authorized donation programs. The Center will establish the Automatic Release Date of appropriate excess listings as thirty (30) days after the Issue Date and may, in certain instances, extend the screening period in accordance with IV F.2. above. Fifteen (15) days following the ARD will be allowed for screening by service educational activities and DHEW, and will be termed the Donation Screening Period. After the prescribed screening periods have expired, the holding activity may take disposal action on that property determined to have no DOD or other Federal utilization, provided that donation has not been authorized to Service-educational activities in accordance with reference (d) or donation has not been authorized by Department of Health, Education, and Welfare and approved by GSA for public health, education, or civil defense purposes, including research. The utilization screening time period for Contractor Inventory is as prescribed in paragraph (J) above, and fifteen (15) additional days (Donation Screening Period) will be allowed for screening for donation programs. Upon specific request of a Military Department, requests to expedite the centralized screening of property may be approved by the Director of the Center provided the expedited screening will not impair the utilization potential of the property concerned. Such expedited screening will be warranted, for example; when inactivation dates do not permit screening during the full period; property is subject to rapid deterioration; location of property and climatic conditions limit or jeopardize economic redistribution or disposal, etc.
2. The screening cycle for reportable property which is required to be reported to and be screened by the Center and then by GSA will include specified time periods for utilization screening and screening for authorized donation programs. The Center will establish the ARD, and will provide for thirty (30) days DOD screening and sixty (60) days of GSA screening. Service-educational activities will be allowed to screen and submit requests for such property for educational purposes prior to the expiration of the ARD in accordance with reference (d). Fifteen (15) days following the Automatic Release Date (original or extended) will be allowed

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as the Donation Screening Period for screening by the Department of Health, Education, and Welfare for educational, public health, or civil-defense purposes, including research purposes. After the prescribed screening periods have expired, disposal action may be taken by the holding activity on such reportable property determined to have no utilization, provided that donation has not been authorized by DHEW and approved by GSA. When advised by the Center or by GSA through the Center of the early release of the property prior to the expiration of the established Automatic Release Date, disposal action may be taken provided donation has not been authorized. The Center will establish the ARD of appropriate Excess Listings for reportable-type aircraft required to be reported to GSA, and will provide for a thirty (30) day DoD screening followed by a thirty (30) day period for GSA and DHEW screening. The Center and GSA will maintain a current list of aircraft types to be screened.

3. The screening cycle for reportable property which is required to be reported directly to GSA Regional Offices for simultaneous DoD-GSA screening will include specified time periods for utilization screening and screening for authorized donation programs. Sixty (60) days will be provided for utilization screening and the Automatic Release Date established by GSA will be effective with the completion of this portion of the screening cycle. Requests from military activities only will be honored by GSA for fifteen (15) days after excess property information is first circularized or publicized to screening activities. Fifteen (15) calendar days following the Automatic Release Date (Donation Screening Period) will be allowed for screening by Service-educational activities and the DHEW for possible donation to educational, public health, or civil defense purposes. Requests from Service educational activities will be accorded priority within this fifteen (15) day period as is provided by reference (d). After the prescribed screening periods have expired, the holding activity may take disposal action on such reportable property determined to have no utilization provided that donation has not been authorized to Service educational activities or donation authorized by DHEW and approved by GSA. When advised by the GSA of the early release of the property prior to the expiration of the established ARD, disposal action may be taken, provided donation has not been authorized.
4. Excess personal property which is located in overseas areas of the types listed in Section II, Schedule I, which is not required to be reported to the Center because of specific exceptions in line-item dollar value limitations or condition, but is property of the type listed as reportable by the same reference will be given Local Area Screening as follows:

- a. Property located in overseas areas will be given Local Area Screening with other Military and requiring Federal activities on a theatre or unified command-wide basis as follows: Within a 100-mile radius when the line-item value of the property does not exceed \$500 (standard price), for not more than ten (10) working days; or throughout the theatre or command when the line-item value is more than \$500 (standard price) for not more than thirty (30) working days. Whenever command screening activities are so widely dispersed, or the quantity and condition of property are such so as to render Local Area Screening and redistribution to be clearly uneconomical, the theatre or unified commander will establish modified screening requirements which are consistent with DOD utilization objectives.
 - b. Property which has been given Local Area Screening in overseas areas may be disposed of in accordance with DOD policies provided there is no known DOD or Federal requirement prior to advertising the property for sale.
 - c. The Instruction of the Center shall prescribe minimum standards for the various methods of overseas Local Area Screening.
5. Local Area Screening in overseas areas, as well as any other internal screening prescribed by a Military Service, will be controlled by the Military Service or unified overseas command, as appropriate, having jurisdiction over the property.
 6. All excess personal property which is not reportable to the Center or to GSA in accordance with Section I, Schedule I, for which there is no known DOD or Federal requirement may be disposed of by authorized means in accordance with DOD policies. A requirement at another Military or Federal activity will be accorded priority over donation or disposal. Fifteen (15) calendar days will be allowed for this utilization screening and for donation as authorized to Service-educational activities, and the Department of Health, Education and Welfare recipients, except as provided below. Priority of donation shall be in the same relative order in accordance with reference (d). Exceptions to the above provision are property located in overseas areas, property dangerous to public health and safety, classified property, perishables and waste materials which are not donable and on which the above time limitations are not applicable.

I. Transfers of Excess personal property to Military and other authorized recipients

1. The Center

Firm orders from the Center requesting transfer of excess personal

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property while being centrally screened by the Center will be honored provided: (1) the items have not been allocated or withdrawn; (2) activities of the owning service have not requested the items within the first ten (10) days of screening; or (3) the items have not been reported to GSA. The Center will honor requests for transfer of items reported to GSA only upon approval by GSA.

2. The GSA

- a. Excess personal property reported directly to GSA Regional Offices. Firm orders from GSA requesting transfer of excess personal property to another Military activity, or Federal civilian activity (provided a military request has not been received by GSA within the first 15 days after circularization in accordance with Paragraph K.3 above), will be honored, provided the items have not been withdrawn by the reporting activity or have not been advertised for sale.
- b. Excess personal property screened consecutively by DoD and then the GSA. Firm orders from GSA requesting transfer of excess personal property to Federal civilian agencies after completion of DoD screening will be honored, provided the items have not been withdrawn by the reporting activity or have not been advertised for sale. Orders requesting the transfer of excess personal property of this category to another Military activity will be honored only if approved by the cognisant IOP of the receiving Service.

3. Reporting and Holding Activities

- a. Whenever the immediate need for reportable excess personal property by another Military or Federal activity is known to exist, transfer may be effected to the requiring activity with the approval of the cognisant Inventory Control Point of the owning Service and the Center without reporting for centralized screening in accordance with this Instruction.
- b. Requests for the transfer of excess personal property which is not required to be reported either to the Center or GSA will be honored provided the items have not been advertised for sale. Requests from civil agencies will normally be coordinated with and approved by GSA.

4. Reimbursement Requirements

a. Within DoD

1. Transfers of excess personal property between Inventory Managers will be in accordance with reference (1).

- (2) Transfers of appropriation-financed excess personal property between an Inventory Manager or an accountable supply officer of one Service to an accountable supply officer of another Military Service to be held as either stock fund or appropriation-financed inventory will be without reimbursement.
 - (3) Transfers of appropriation-financed excess personal property within a Military Service, other than as provided in 1 above, between accountable supply officers within a Military Service will be without reimbursement.
 - (4) Transfers of excess personal property held in a stock fund, with a line item value of less than \$3000 (Standard Price), to an accountable supply officer of another installation in the same Military Service (with the approval of the applicable Inventory Control Point) will be without reimbursement.
 - (5) Transfers of excess personal property held in a stock fund, having a line item value of less than \$3000 (Standard Price), from one Military Service to an accountable supply officer of another Military Service, will be without reimbursement.
 - (6) Other than as provided in 1 above, transfers of excess personal property held in a stock fund, having a line item value of \$3000 or more (Standard Price), to accountable supply officers within the same Military Service, or to an accountable supply officer of another Military Service, will be at reduced prices as provided by regulations governing stock fund operations.
 - (7) In all cases of transfer of excess personal property, as provided by paragraphs (2) through (6) above, the acquiring accountable supply officer will pick up those inventories in the same supply and fund accounts in which the item is normally carried at that activity.
 - (8) Transfer of excess personal property held in an Industrial Fund will be with reimbursement as provided by reference (k).
- b. To Federal Agencies outside the DoD
- (1) Transfers of excess personal property (except property held by industrial funds) having a line-item value of less than \$3000 (Standard Price) will be without reimbursement.
 - (2) Transfers of excess personal property having a line-item value of \$3000 or more (Standard Price) will be at "fair value" as provided in reference (c).
 - (3) Transfer of excess personal property of \$3000 or more per line item (Standard Price) without reimbursement where reimbursement at fair value is otherwise indicated by reference (c), will be honored only when approved by GSA, provided however, this provision is not applicable to stock-fund property or to property located in overseas areas.
 - (4) Reimbursement requirements for transfers of excess personal property to the International Cooperation Administration will

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be in accordance with prices established by separate DOD agreement in lieu of "fair values" otherwise indicated by reference (c).

- (5) Transfer of excess personal property held in an Industrial Fund will be with reimbursement as provided by reference (k).

c. Transportation and accessorial costs

Costs of transportation of excess personal property transferred as authorized by this Instruction together with accessorial costs, when appropriate, will be borne by the receiving activity.

M. Requesting property from the Center and GSA

1. Requests for transfer of excess personal property will be accomplished in accordance with the instructions prescribed by the Center.
2. Requests for transfer of excess personal property will be restricted to those categories of property that the requesting activity is normally authorized to acquire unless specific approval of the cognizant Service has been obtained.
3. The activity initiating a request for excess personal property will consider the various costs incident to its acquisition to preclude uneconomical transfers, except when the property concerned is the only immediate source of supply.

N. Revision of reporting criteria

1. Categories of "reportable and "non-reportable" property as defined and used in this Instruction are modified from time to time by agreement between GSA and the DOD. It is incumbent upon each of the Military Departments to recommend to the Assistant Secretary of Defense (Supply and Logistics) from time to time any modification of, or changes to, the reportable and non-reportable categories.
2. The Director of the Center is authorized to exempt from reporting by notification to the various Services that property located in overseas areas which experience clearly indicates has low or uneconomical utilization potential. Concurrent with notification to the Services, the Center will forward to ASD(S&L) recommendations for change to Schedule I, Enclosure 1, together with the facts supporting change to reporting requirements.

V. EFFECTIVE DATE

The provisions of this Instruction are to be effective March 1, 1960.

VI. IMPLEMENTATION

- A. The Center will issue implementing instructions after publication of this Instruction and will provide the Military Departments implementing detail as required. Two copies of the Center implementing instructions will be furnished the ASD(S&L) within sixty (60) days after the effective date of this Instruction.
- B. The Military Departments will publish revised procedures consistent with the requirements of this Instruction. Two copies of such instructions will be furnished the ASD(S&L) within sixty (60) days after the effective date of this Instruction.
- C. The Center will coordinate with the GSA in the development of statistical requirements and data collection which are essential to the effective implementation and evaluation of the procedures established by this Instruction.

Inclosures - 2

1. Schedule I
2. Definitions



PERKINS MCGUIRE
Assistant Secretary of Defense
(Supply and Logistics)

SCHEDULE I

- I. The following categories of property will not be reported to the Armed Forces Supply Support Center (the Center) or the GSA Regional Office in the region where the property is located regardless of the Federal Supply Classification Group.
- a. Personal property determined by competent authority to be classified for reason of national security.
 - b. Personal property dangerous to public health or safety, including personal property administratively condemned for this reason.
 - c. Personal property used by a single Service, or which has a use potential solely within a single Service, such as peculiar arms, ammunition, and implements of war, unit insignia, service publications, blank forms, etc.
 - d. All perishable property.
 - e. All scrap, salvage, waste and condition condemned property, except where reporting is specified in Section II below.
 - f. All personal property having a line-item standard price of \$5,000 or less, if located in overseas areas (outside United States, Puerto Rico, and the Virgin Islands).
 - g. All personal property exempted from reporting to the Center in Section II below by the phrase "Not Reportable", indicated in the minimum line-item value and condition criteria column.
 - h. Contractor Inventory, except production equipment (as provided in Section IV, J).

II. Reportable Property: All items, except as otherwise prescribed in this Instruction, which are not included in the broad exemptions of Section I above and which meet both the minimum "Line Item Value" and "Minimum Condition" criteria specified below will be reported for utilization screening as follows:

Criteria for determining excess personal property which is subject to either consecutive or simultaneous DOD-GSA utilization screening as specified in columns (4), (5) and (6):			<u>Consecutive Screening</u> <u>Report direct to AFSEC:</u>		<u>Simultaneous Screening</u> <u>Report direct to GSA:</u>
			a. Line items \$3000 or more (Standard Price);		a. Line items under \$3000 (Standard Price);
			b. Overseas property (AFSEC screening only)—line items \$5000 (Standard Price) or more.		b. Overseas — not applicable.
Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFSEC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
10 (except 1005)	Not Reportable	Not Reportable	No	No	No
1005	\$500	R2, R2, Q2, R2	Yes	No	Yes
11	Not Reportable	Not Reportable	No	No	No
12	Not Reportable	Not Reportable	No	No	No
13	Not Reportable	Not Reportable	No	No	No
14	Not Reportable	Not Reportable	No	No	No
1510, 1520 (GSA specified models)	\$500	R4, R4, Q4, R4	Yes	Yes	No
1510, 1520 (all other)	\$500	R4, R4, Q4, R4	Yes	No	Yes

Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFSSC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
1530, 1540, 1550 1560	Not Reportable	Not Reportable	No	No	No
16 (except 1640 and parachutes)	\$500	N2, E2	Yes	No	Yes
16 (parachutes)	\$500	N4, E4, O4, R4 X	Yes	Yes	Yes
1640	Not Reportable	Not Reportable	No	No	No
17 (except 1710, 1720)	\$500	N3, E2, O2, R2	Yes	No	Yes
1710, 1720	Not Reportable	Not Reportable	No	No	No
19 (except combat vessels and vessels over 1500 tons)	\$500	N3, E3, O3, R2	Yes	Yes (except 1945, 50)	Yes
19 (combat vessels and vessels over 1500 tons)	Not Reportable	Not Reportable	No	No	No
20 (except 2040)	Not Reportable	Not Reportable	No	No	No
2040	\$500	N3, E2, O2	Yes	No	Yes
22	\$500	N3, E3, O3, R2	Yes	Yes (except 2240)	Yes
23 (2310, 30)	\$500	N4, E4, O4, R4	Yes	Yes	Yes

Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFSSC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
23 (2320 except armored and amphibious)	\$500	N4, E4, O4, R4	Yes	Yes	Yes
23 (2320 armored and amphibious)	\$500	N3, E3, O3, R2	Yes	No	Yes
23 (2340)	\$500	N3, E3, O3, R2	Yes	Yes	Yes
23 (2350)	Not Reportable	Not Reportable	No	No	No
24 (2410, 20 except cab, body, frame and structural components and springs)	\$500	N4, E4, O4, R4	Yes	Yes	Yes
24 (2410, 20 cab, body, frame and structural components and springs)	Not Reportable	Not Reportable	No	No	No
24 (2430)	Not Reportable	Not Reportable	No	No	No
25	Not Reportable	Not Reportable	No	No	No
26 (except 2610, 2640)	\$300	N3, E2, O2	Yes	No	Yes
2610	\$300	N2	Yes	Yes	Yes
2640	Not Reportable	Not Reportable	No	No	No
2805, 2815	\$300	N3, E2, O2	Yes	Yes	Yes
2810, 2840, 2895	\$500	N3, E3, O3, R2	Yes	No	Yes

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Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFSSC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
2820, 2825, 2830, 2835, 2845	Not Reportable	Not Reportable	No	No	No
29 (2910, 20, 30, 35, 40, 90)	Not Reportable	Not Reportable	No	No	No
29 (2915, 25, 45, 50, 95)	\$500	N3, E3, O3, R2	Yes	No	Yes
30	Not Reportable	Not Reportable	No	No	No
31 (3110)	\$300	N3, E1	Yes	No	Yes
31 (3120, 30)	Not Reportable	Not Reportable	No	No	No
32	\$300	N3, E3, O3, R2	Yes	Yes	Yes
3411 thru 3419; 3411 thru 3449	\$500	N3, E3, O3, R2	Yes*	Yes*	No*
3422 thru 3432; 3450 thru 3470	\$500	N3, E3, O3, R2	Yes*	Yes*	No*
35	\$300	N3, E3, O3, R2	Yes*	Yes*	Yes*
36	\$300	N3, E3, O3, R2	Yes	Yes* (except 3695)	Yes*
37	\$300	N3, E3, O3, R2	Yes	Yes	Yes
38 (3805, 10, 25, 95)	\$500	N4, E4, O4, R4	Yes	Yes	Yes

See paragraph IV J, basic Instruction, for exemption from reporting to GSA, Contractor Inventory, Production equipment. Special instructions by the Center apply to metalworking machinery and other Production Equipment as prescribed by paragraph IV I.

Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFSSC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
38 (3815, 20, 30, 35)	\$500	N3, E3, 03, R2	Yes	Yes (except 3835)	Yes
39 (except 3940)	\$300	N3, E3, 03, R2	Yes	Yes*	Yes*
3940	Not Reportable	Not Reportable	No	No	No
40	\$300	N3, E3, 03, R2	Yes	Yes	Yes
41	\$300	N3, E3, 03, R2	Yes	Yes	Yes
42 (4210, 20, 40)	\$300	N3, E3, 03, R2	Yes	Yes (except 4220)	Yes
42 (4230)	Not Reportable	Not Reportable	No	No	No
43	\$500	N3, E3, 03, R2	Yes	Yes*	Yes*
44 (4410, 30, 50, 60, 70)	\$500	N3, E3, 03	Yes	Yes*	Yes*
44 (4420, 40)	Not Reportable	Not Reportable	No	No	No
45	\$300	N3, E3, 03, R2	Yes	Yes	Yes
46	\$500	N3, E3, 03, R2	Yes	Yes	Yes
47	\$300	N3, E3, 03, R2	Yes	Yes	Yes
48 (4810, 4820)	\$500	N3, E2	Yes	Yes	Yes
49 (4910, 20, 30, 40)	\$300	N3, E3, 03, R2	Yes	Yes (except 4920)	Yes

*See paragraph IV J, basic Instruction, for exemption from reporting to GSA, Contractor Inventory, Production Equipment. Special instructions by the Center apply to metalworking machinery and other Production Equipment as prescribed by paragraph IV I.

Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFBSC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
49 (4925, 31, 33 35)	Not Reportable	Not Reportable	No	No	No
51	\$300	N3, E3, 03, E2	Yes	Yes	Yes
52	\$300	N3, E3, 03, E2	Yes	Yes	Yes
53	\$300	N3	Yes	Yes	Yes
54	\$500	N3, E3, 03	Yes	Yes (except 5420)	Yes
55	\$100	N3	Yes	Yes	Yes
56 (except sand, gravel stone)	\$300	N3	Yes	Yes	Yes
56 (sand, gravel, stone)	Not Reportable	Not Reportable	No	No	No
58 (5805, 15, 20, 30, 35)	\$500	N3, E3, 03, E2	Yes	Yes	Yes
58 (all other classes)	\$500	N3, E3, 03, E2	Yes	No	Yes
59 (5965, 75)	\$300	N3, E3, 03, E2	Yes	Yes	Yes
59 (all other classes)	\$300	N3, E3, 03, E2	Yes	No	Yes
61	\$300	N3, E3, 03, E2	Yes	Yes	Yes
62 (except 6210, 20, 60)	\$300	N3	Yes	Yes	Yes

Federal Supply Group or Class	Minimum Line Value	Minimum Condition	AFSSC	GSA	GSA REGIONAL OFFICE
(1)	(2)	(3)	(4)	(5)	(6)
6210, 6220, 6260	Not Reportable	Not Reportable	No	No	No
63 (6320)	Not Reportable	Not Reportable	No	No	No
63 (all other classes)	\$500	N3	Yes	No	Yes
65 (except 6505, 6510)	\$300	N3, E3, O3, R2	Yes	Yes	Yes
6505	Not Reportable	Not Reportable	No	No	No
6510	\$300	N1	Yes	Yes	Yes
66	\$300	N3, E3, O3, R2	Yes	Yes* (except 6605, 10,15, 20,55,65,80)	Yes*
67 (except outdated film in 6750 & 6770)	\$300	N3, E3, O3, R2	Yes	Yes	Yes
67 (6750-outdated film only)	\$300	N4	Yes	Yes	Yes
67 (6770)	Not Reportable	Not Reportable	No	No	No
68	\$300	N3	Yes	Yes	Yes
69	\$500	N3, E3, O3, R2	Yes	No	Yes
71 (except 7110)	\$300	N3, E3, O3, R2	Yes	Yes	Yes
71 (7110)	\$100	N4, E4, O4, R4	Yes	Yes	Yes

*See paragraph IV J, basic Instruction, for exemption from reporting to GSA, Contractor Inventory, Production Equipment. Special instructions by the Center apply to metalworking machinery and other Production Equipment as prescribed by paragraph IV I.

Federal Supply Group or Class (1)	Minimum Line Value (2)	Minimum Condition (3)	AP33C (4)	GSA (5)	GSA REGIONAL OFFICE (6)
72	\$300	N3, E3, O3, R2	Yes	Yes	Yes
73	\$300	N3, E3, O3, R2	Yes	Yes	Yes
74	\$100	N3, E3, O3, R2	Yes	Yes	Yes
75	\$100	N3	Yes	Yes	Yes
76 (except 7610)	Not Reportable	Not Reportable	No	No	No
76 (7610)	\$500	N2, E2, O2	Yes	Yes	Yes
77	\$300	N3, E3, O3, R2	Yes	Yes	Yes
78	\$100	N3, E3, O3, R2	Yes	Yes	Yes
79 (7910,20)	\$300	N3, E3, O3, R2	Yes	Yes	Yes
79 (7930)	\$300	N3	Yes	Yes	Yes
80	\$300	N3	Yes	Yes	Yes
81 (8125,30,40)	Not Reportable	Not Reportable	No	No	No
81 (all other classes)	\$300	N3, E3, O3, R2	Yes	Yes	Yes
83 (8306,40,45)	\$300	N3, E3, O3, R2	Yes	Yes (except 8345)	Yes
83 (8310,15,20,25,30,35)	\$300	N3	Yes	Yes (except 8325)	Yes
84	\$300	N3, E3, O3, R2	Yes	Yes (except 8455, leggings, military headgear, Navy jacket, jumpers, pistol belts)	Yes

Federal Supply Group or Class (1)	Minimum Line Value (2)	Minimum Condition (3)	AFSSC (4)	GSA (5)	GSA REGIONAL OFFICE (6)
85	\$300	E2	Yes	Yes	Yes
87	Not Reportable	Not Reportable	No	No	No
88	Not Reportable	Not Reportable	No	No	No
89 (except 8965)	Not Reportable	Not Reportable	No	No	No
89 (8965)	\$300	E3	Yes	Yes	Yes
91 (except oil stripped from vessels)	\$500	E3	Yes	Yes	Yes
91 (oil stripped from vessels)	Not Reportable	Not Reportable	No	No	No
93	\$300	E3	Yes	Yes	Yes
94	Not Reportable	Not Reportable	No	No	No
95	\$300	E4	Yes	Yes	Yes
96	Not Reportable	Not Reportable	No	No	No
99 (except 9999)	\$300	E2	Yes	Yes	Yes
99 (9999)	\$300	E3, E3, O3, E2	Yes	Yes	Yes

DEFINITIONS

a. Advice of Availability - Report of excess personal property showing Department of Defense excess property which is available for utilization screening by the General Services Administration.

b. Armed Forces Supply Support Center (AFSSC or Center as used in this Instruction) - The designated Department of Defense agency charged with the responsibility for effecting the circularization of excess personal property information and redistribution of excesses required by the Services (reference (b)).

c. Automatic Release Date - The date established by the Center or the GSA to indicate the completion of utilization screening period. Property not required for utilization purposes in the absence of a Transfer Order, Purchase Order, or Requisition from the Center or GSA becomes available following the ARD for donation, public sale, or other authorized disposal in accordance with established policies and priorities.

d. Centralized Screening - Screening of excess personal property information with the Military Services by the GSA or by the Center.

e. Contractor Inventory - (1) Any property acquired by and in possession of a contractor or subcontractor (including Government-furnished property) under a contract pursuant to the terms of which title is vested in the Government, and in excess of the amounts needed to complete full performance under the entire contract, and (2) any property which the Government is obligated or has the option to take over under any type of contract as a result either of any changes in the specifications or plans thereunder or of the termination of such contract (or subcontract thereunder), prior to completion of the work, for the convenience or at the option of the Government.

f. DOD Excess Personal Property - Personal property (as distinguished from real property) determined to be unnecessary to the needs and discharge of the responsibilities of the DOD.

g. Excess Listing - Consolidated listing of excess personal property as prepared by the Center or the GSA.

h. Excess Personal Property - Personal property (as distinguished from real property) including contractor inventory which is under the control of a DOD activity and is determined to be unnecessary to the needs and discharge of the responsibilities of such DOD activity. Excess personal property may originate at any organizational level (base, command, bureau, service, plant, facility, department, etc.) in accordance with criteria established by the cognizant Military Department. Excess personal property as described may attain the status of DOD Excess Personal Property only after it has been determined to be unnecessary to the needs and discharge of the responsibilities of the DOD.

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i. Foreign Excess Personal Property - Personal property located outside the United States, Puerto Rico, and the Virgin Islands which has been determined to be unnecessary to the needs and discharge of the responsibilities of the DOD.

j. Holding Activity - The activity at which the reported property is physically located.

k. Issue Date - The initial control date of the Excess Listing, assigned by the Center or the GSA, from which the Automatic Release Date of the property is computed.

l. Line Item - A single line entry shown on a reporting form which indicates the quantity of property located at any one activity, having the same description, condition code, and unit cost.

m. Local Area Screening - Utilization screening accomplished in overseas areas through circularization of excess personal property information to military activities and with U. S. Federal Agencies requiring excess property information within each respective theatre or overseas unified command.

n. Machine Tools - Those items of production equipment which are power-driven, nonportable machines used for cutting, abrading, grinding, shaping or forming metal.

o. Overseas Area - Locations outside United States, Puerto Rico, and Virgin Islands.

p. Nonreportable Property - Excess personal property which is not required to be reported to the Center or to GSA for screening prior to disposal.

q. Personal Property - Property of any kind or any interest therein, except real property, records of the Federal Government, and naval vessels of the following categories: aircraft carriers, battleships, cruisers, destroyers, and submarines.

r. Production Equipment - Those items of plant equipment located within a manufacturing, processing, assembly or service establishment and used for cutting, abrading, grinding, shaping, forming, joining, measuring, testing, heating, or treating production materials or work in process. Enclosure (2) to reference (g) lists items considered to be Production Equipment.

s. Purchase Order or Requisition (for excess personal property) - Document issued by any Federal agency for the transfer of excess personal property.

t. Reportable Property - Excess personal property which must be reported to the Center or to GSA for screening prior to disposal.

u. Reporting Activity - The military installation or activity which initiates report of excess personal property to the Center or to GSA.

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v. Salvage - Personal property which has some value in excess of its basic material content, but which is in such condition it has no reasonable prospect of use for any purpose as a unit and its repair or rehabilitation for use as a unit is clearly impracticable. (Generally, when the estimated cost of repairs exceeds 65 percent of the acquisition cost, personal property should be classified as salvage.)

w. Scrap - Personal property, other than waste, which has no reasonable prospect of sale, or which appears to have no market value except for its basic material content.

x. Service Educational Activity - Educational activity of special interest to the Department of Defense as designated in DOD Directive 5100.13, Donation of Surplus Property to Educational Activities of Special Interest to Armed Services.

y. Standard Price - The unit price of an item as it is recorded in the financial and accounting records of the holding Military Service per references (j), (k), and (1).

z. Surplus Personal Property - Personal property not required for the needs and the discharge of the responsibilities of all Federal agencies, as determined by the Administrator, GSA.

aa. Transfer Order (for excess personal property) - Document issued by the Center or the GSA directing transfer of excess personal property.

bb. Utilization Screening - The screening of excess personal property by DOD and other authorized activities to effect maximum economical utilization of such property under the control of the DOD.

cc. Waste Material - Waste material consists of waste and refuse material which may have potential sales value, including, but not limited to, garbage, trap grease, corrugated kraft cardboard, and other types of waste paper.

Senator O'MAHONEY. I suggest, Mr. Chairman, that we should obtain for the record the text of each one of those directives and the testimony of the officer who signed that so that we will know definitely how he was acting and why he was acting when he issued that document that is now in our hands.

The CHAIRMAN. Is Mr. Hangen in the auditorium?

Mr. WARD. May I say he is here and he is one of the finest officers that I have ever met in the Department of Defense.

The CHAIRMAN. I did not know Mr. Hangen was here.

I want to say, Mr. Hangen, that you are not being singled out. We realize you are at the end of this process and you issued these lists. You do not decide what is surplus.

STATEMENT OF HERMAN C. HANGEN, DIRECTOR, ARMED FORCES SUPPLY SUPPORT CENTER

Mr. HANGEN. That is correct.

Senator O'MAHONEY. May I say, since I made the suggestion, I have before me the excess surplus property alphabetical index for the month of May 1958, which was canceled as of the first of September 1958, issued in May 1958.

The first paragraph here says, "This index is issued by the Inter-Service Material Utilization Agency, Bureau of Supplies and Accounts, Department of the Navy, under authority contained in Department of Defense Instructions Numbered 4140.12 and 4160.9," and no name is signed to this at all.

So there is a difference between this group and the group which got out the list that Congressman Curtis mentioned.

Mr. HANGEN. That is a predecessor group.

Senator O'MAHONEY. There is no personal list in this one at all.

Mr. HANGEN. That is a predecessor group. The Armed Forces Supply Center now gets lists from each one of the services whenever they have excess property and they send them in to the center. We as an organization put them together, issue these lists, and circulate them to the military installations.

Senator O'MAHONEY. When was your organization established?

Mr. HANGEN. On July 14, 1958.

Senator O'MAHONEY. 1958?

Mr. HANGEN. Yes.

Senator O'MAHONEY. With how many departments of the military do you deal?

Mr. HANGEN. We send the list to all military departments.

Senator O'MAHONEY. From whom do you get the list?

Mr. HANGEN. From any military installation.

Senator O'MAHONEY. From all of them?

Mr. HANGEN. Yes; from all of them that have excess property.

Senator O'MAHONEY. Was it established by law or by directive?

Mr. HANGEN. Our organization was established by directive.

Senator O'MAHONEY. Do you know under what authority of law the directive was issued?

Mr. HANGEN. I presume it was issued under the McCormack amendment.

Senator O'MAHONEY. Would you get the exact information dealing with this directive and supply it to the committee?

Mr. HANGEN. Yes.

(The information appears on p. 119.)

Senator O'MAHONEY. Thank you.

I interrupted you. You may go on.

Mr. HANGEN. I think I got to the point where we get the lists from each military installation that has excess property. Our function is to put them together and distribute those lists to all other military installations so that they can see what is in excess property and if they need it they can pick up that property and use it.

Senator O'MAHONEY. Do they pick it up?

Mr. HANGEN. To quite a substantial degree; yes.

Senator O'MAHONEY. What is substantial?

Mr. HANGEN. I do not remember the exact figures, but I would say about 6 percent in total.

The CHAIRMAN. Six percent?

Mr. HANGEN. Yes.

The CHAIRMAN. And 94 percent is scrapped?

Mr. HANGEN. We have some misnomers in those figures. Any excess property, or to put in another way, in Government we do not have depreciation. Every civilian organization charges depreciation each year. So if you have a truck that has run for a certain period of time, that is worn out, it is listed at its original cost as Mr. Ward has shown. This truck might be worth on the market 10 percent and we get 10 percent for it. It might be worth 10 percent and maybe we only get 6 percent for it. It does not mean that 94 cents on the dollar is lost.

Senator O'MAHONEY. When you say that 6 percent of the material was taken by departments, what did you mean? Of the number of items or of the number of dollars?

Mr. HANGEN. The dollar value. Six percent of the total acquisition value was taken.

Senator O'MAHONEY. Was that value the acquisition value?

Mr. HANGEN. Yes; that is right.

Senator O'MAHONEY. That means that 6 percent is a larger figure than it would seem at first hearing.

Mr. HANGEN. Very much so. Much of the property is worn out equipment which only has scrap value.

Senator O'MAHONEY. Can you tell us the dollar value for the receipts for the last fiscal year?

Mr. HANGEN. I can get that figure. I do not have it with me. (The information follows:)

*Utilization of long supply inventories and receipts from sale of surplus,
fiscal year 1959*

	<i>Billions</i>
Utilized by DOD (including military assistant programs) -----	\$1.172
Utilized by other Federal agencies -----	.117
Receipts from sale of scrap and salvage property -----	.091
Receipts from sale of other than scrap and salvage property -----	.122
Total utilization and receipts -----	1.502
Transferred for donation (Public Law 152) -----	.302

*Utilization obtained from excess lists distributed by Armed Forces
Supply Support Center*

	<i>Percent utilization</i>
Fiscal year 1958 (year before establishment of AFSSC)	3.1
Fiscal year 1959 (first year of AFSSC)	5.8
First one-half fiscal year 1960	9.6

Senator O'MAHONEY. I think, Mr. Chairman, that we ought to set down a special date for this gentleman and let him make his preparation for his explanation of the method used.

The CHAIRMAN. We will be very glad to try to do that sometime in the month of February or March. Mr. Hanger, in going over the current list, January 1960, in the furniture classification, I find large numbers of bookcases, buffets, cabinets, chairs, desks, files, lockers, safes, tables, stands, even a vanity dresser.

Are these claimed each month on the furniture items by the various services?

Mr. HANGER. Yes, many of them are claimed. I do not know what this is. In a group of items like that, I judge it is some camp that is being closed. The way to dispose of that is to advertise the fact that you have this equipment so that someone else can pick it up.

The CHAIRMAN. I understand. On the furniture items, will you be able to dispose of them virtually each month? Do you clear the decks on furniture?

Mr. HANGER. We do not in the military services; no. These lists, after they have been cleared through the military services, then go to the General Services Administration for clearing through the civil agencies and through donable organizations.

The CHAIRMAN. What I am trying to get at is this: Is it not true that the military at the same time that it is declaring these items surplus, is also buying cabinets, chairs, desks, files, safes, tables, and so on?

Is there not a simultaneous process of declaring these items surplus and at the same time purchasing substantially similar items?

Mr. HANGER. There could be.

The CHAIRMAN. Is there?

Mr. HANGER. Also on these, it could be that this is worn out material that is not worth repairing.

The CHAIRMAN. Mr. Hanger, this is a crucial matter. Can you not be more helpful in that to us?

Mr. HANGER. Mr. Chairman, my function and the function of my organization is one of circulating these lists and attempting to get utilization. I have nothing whatsoever to do with procurement.

Representative CURTIS. You are just dumping the garbage?

Mr. HANGER. Yes. I am the minister of the garbage pail, as the Representative calls it.

Senator O'MAHONEY. Do you have any information when you receive these lists as to the character of the items?

Mr. HANGER. Yes, sir. Listed on the list are code numbers.

The CHAIRMAN. As I understand it, the symbols N-1 and N-2 mean unused.

Mr. HANGER. Yes. N means new and N-1, good condition.

The CHAIRMAN. Going over two pages here, I would say the N-1's and N-2's form a very large percentage of the items on pages 223 and 224 of January 1960 catalog. Do the procurement officers look at your lists?

Mr. HANGEN. Yes, the inventory control points receive our lists.

The CHAIRMAN. Do you know whether they order from the list?

Mr. HANGEN. Yes, we know because we make transfers of a substantial amount of property.

The CHAIRMAN. Do you think more needs to be done in order to get them to absorb as much of this surplus as possible?

Mr. HANGEN. Yes. I think that more should be done. We are endeavoring to improve the methods. I think the developments that Mr. Ward mentioned, the ones of single management, are a great improvement along this line.

The CHAIRMAN. I may say in this connection that we have had some experience in Illinois on this matter. Items which have been declared surplus all the way through by the Defense Department went into the hands of the General Services Administration. Then the HEW gave these to the State of Illinois.

The State of Illinois gave the material to civil defense and in a new real estate development in Illinois—Carpentersville—civil defense gave it to a private contractor. It consisted largely of construction equipment and machinery.

The Chicago papers, the Chicago Sun-Times, listed this material running into a couple hundred thousand dollars. I asked the General Accounting Office to find out if at the same time that these items were being disposed of whether the armed services were simultaneously buying new items which were similar to those which had been disposed of, and they reported to me that seven of the 14 items tested were also items that one branch or another of the military services were buying at about the time that this other material was being given away.

That is half of that sample of 14 items. It was new equipment, too. What methods could we use to prevent this from happening in the future?

Mr. HANGEN. Frankly, you are out of my field.

The CHAIRMAN. It is always somebody else's job. It is always somebody else who takes care of the left foot or hindfoot or the left nostril or right nostril.

Senator O'MAHONEY. Mr. Chairman, I have this index for January 1960, to which you referred a moment ago, and one of the rear pages I find a list of metal bars, sheets, and shapes. Here is aluminum alloy sheet, N-1. Aluminum alloy sheet, N-1. Aluminum alloy sheet, N-1. Aluminum alloy sheet, N-1. Then it goes down through copper and steel and wire and zinc and titanium.

The CHAIRMAN. Every item on this page is either N-1 or N-2, which means that they are unused.

Senator O'MAHONEY. That is right.

The CHAIRMAN. And declared surplus.

Senator O'MAHONEY. How is it possible to put unused items in surplus? There must be some way of obtaining an explanation why any department referred to your agency unused items of such valuable nature as these. Do you know of any?

Mr. HANGEN. I presume there are good reasons for it, but

Senator O'MAHONEY. It is not your function to find out?

Mr. HANGEN. No, sir.

Senator O'MAHONEY. Is it the function of anybody in your agency to find out?

Mr. HANGEN. No, sir.

Senator O'MAHONEY. What would you think of a law that provided that unused items should not be delivered to your agency for sale as surplus without a specific written explanation of why by the head officer of the department?

Mr. HANGEN. I would question that our organization would be the only that such a reason should be given to.

Senator O'MAHONEY. The Congress could pass such a law.

Mr. HANGEN. Yes. I would say it should be to the service or organization that does the inventory control.

Senator O'MAHONEY. You are right about that. I said without a certificate by the head of the agency in sending the surplus material to you. In other words, the record here now shows that you receive unused surplus material and you do not investigate it.

Mr. HANGEN. That is right.

Senator O'MAHONEY. That is a thing that I think this committee will have to go into.

The CHAIRMAN. If I may supplement the remarks of my very able colleague from Wyoming, on page 265 of the same catalog, we have a listing of excess personal property in category 81, clothing and individual equipment. I would like to read some of the unused items here.

Gloves, flying helmets, slings, flying suits, olive trousers, flight trousers—large lists of flight trousers.

I wonder in going to some of these Army surplus stores, granted that the material which they sell is not always Army surplus, and I have gone into not less than six or seven of those Army stores myself, and have seen items there which I recognized as military items, relatively unused, being offered for sale.

I naturally wonder how they got there, how much they paid for them, whether the defense units could not have used them in some form or another. Then we have these mail order catalogs which describe automobiles and trucks.

I may say that these people sometimes do overstretch the matter and pretend it is Army surplus when it is not necessarily always.

Senator O'MAHONEY. There is no pretense of this document, is there?

The CHAIRMAN. No, this is official. In the case of Carpentersville, Ill., to which I was referring, they were giving trucks away that we declared surplus and buying trucks at the same time. Then when you come to communications equipment. You preserve a silence under these comments, Mr. Hangen.

Mr. HANGEN. Pardon?

The CHAIRMAN. I say you preserve a silence. Do you have any comments?

Mr. HANGEN. As I explained originally, our function in this is one of taking the lists that come in to us.

The CHAIRMAN. To whom do you report?

Mr. HANGEN. We are a Department of Defense agency.

The CHAIRMAN. Yes, but who is above you on the organization chart?

Mr. HANGEN. We have a council and the council reports to the Department of Defense, Assistant Secretary for Supply and Logistics.

The CHAIRMAN. Mr. McGuire?

Mr. HANGEN. Yes.

Representative CURRIS. Your job is to obtain utilization of this excess property as efficiently as possible and get the best return. However, being in this position, you could be in a position of passing information on to things that possibly should not have been in the garbage pail. Has there been any of that technique developed in reporting back? Will you report back to Assistant Secretary McGuire, for example, that it looks like if we improved our procurement practices here in this specific area, we would not be having this much surplus here?

Mr. HANGEN. We make reports on the amount of excess we have and the different classifications and the amount of utilization return that we get from it. We actually have no way in our organization of knowing whether that is a wrong buy, whether it was bought when troop strength was figured higher or anything of that nature. We have no way of knowing that.

Representative CURRIS. You do not go into it, but under Assistant Secretary McGuire, he has the broad field, does he not?

Mr. HANGEN. Yes.

Representative CURRIS. Incidentally, I might explain the garbage pail technique is an Old Army technique that the supply sergeant who ran the mess employed in order to find out how well his mess was being run. He would just take a look and if he got too much of this in the garbage pail, somebody cooked it wrong or too much was cooked up or something else was amiss.

From that a lot could be learned. All I am asking now is the very limited question: Is that technique of learning about mistakes, finding out what really did happen so that the procurement system could be improved, being employed presently in the Department of Defense and in your shop?

Mr. HANGEN. I think it is; yes, sir. I think it is one very major factor in the establishment of the single managers that have been established and the ones that are contemplated.

Representative CURRIS. Because you saw so much of certain kinds of material showing up in surplus?

Mr. HANGEN. That is correct.

Representative CURRIS. But there has been no formal method of reporting back on these items.

Mr. HANGEN. Of course, this is our method of reporting excess to every military service.

Representative CURRIS. As you say, you do not know how any particular surplus item got into the system. What I am wondering is whether or not in trying to evaluate the procurement procedures, such as you might learn them from checking out why a certain thing got in, whether there is a procedure established in your shop for reporting.

Mr. HANGEN. I know in Mr. McGuire's office they frequently take items and check back and find out what caused the excess.

The CHAIRMAN. In this connection, I would like to make this statement for the record. Group 59, beginning on page 190 of the January 1960 catalog, lists enormous numbers of transformers which are declared to be unused. This begins in the first column of page 190 and runs through the rest of that page, all of page 191, all of page 192, all of page 193, all of page 194, all of page 195. No. Down to one-third of the column on page 195.

From a rather hasty analysis, I see only one item of all these several hundred marked other than N-1 or N-2. These quantities of transformers are large. I will read off some of the quantities:

16, 24, 58, 150, 16, 79, 27, 21, 91, 52, 81, 22, 17, 57, 46, 19, 15, 44, 48, 95, 103, 11, 109, 35, 2, 17, 30, 46, 20, 14, 16, 20, 40, 25, 26, 23, 25, 240, 26, 34, 357, 122, 17, 20, 37, 59, 15, 39, 54, 45, 39, 4, 33, 21, 15, 33, 139, 27, 34, 33, 85, 32, 74, 11, 72, 6, 499, 59, 90, 39, 6, 69, 20, 49.

Those quotations were simply from page 190, and there are six pages like this. Those are the units, all in good condition. Let us get unit cost. \$17.50.

Representative CURTIS. The first one is \$708.

The CHAIRMAN. That is right. \$708. \$17.50. \$5.50. \$3.50, \$20, \$24.10. \$61, \$30, \$26, \$35, \$50, \$10, \$23, \$18, \$15, \$15, \$18, \$48, \$49, \$50, \$17, \$10, \$4.40, \$38, 50 cents, \$10, \$10, \$708, \$81, 90 cents, \$12, \$22.87, \$72.50, \$69.80, \$16.40, \$18.50, \$13.60, \$21.70, \$26.90, \$2.15. That is for each of the 240 surplus items. \$18.50, \$11.50, \$3.42, \$58.30, \$96.30, \$98 for a quantity of 20. \$31, \$25, \$10, 90 cents, \$20, \$15.10, \$24.90, \$77.10, \$9.25, \$37.10, \$35, \$37.10, \$42.30, \$77.30, \$19.50, \$20.80, \$74.10, \$21.50, \$28.70, \$4.65, \$37.30, \$92.90, \$15.00.

This is only one page, of absolutely new stuff, in large quantities, with generally high unit price, namely, transformers. Why were those bought in such huge quantities, and secondly, are various units in the Defense Department simultaneously buying transformers? Those are only five pages.

Representative CURTIS. In asking those questions, I see he is writing those down, I am more interested really in the procedures that might be established for somebody in the shop doing exactly what Senator Douglas is doing looking over these items and wondering what procurement practices produced that. I am satisfied that many of these will have perfectly proper and good explanations. I am sure of it, even though they seem on the face to be absurd. I am sure many of them will have good explanations. But on the other hand, having been in some of this myself, and dug into it, some of them are going to be beauties, and they are going to reveal some strange procurement practices that I am sure we could have corrected long before now if we were looking for errors and methods of correcting our system.

Mr. HANGEN. Yes.

Representative CURTIS. It is the system that I am concerned with more than anything else. In this instance I am concerned about the system of using the garbage pail to help us in correcting our overall procurement practices.

The CHAIRMAN. Mr. Hangen, thank you very much.

We will now hear from Mr. Newman.

STATEMENT OF RICHARD J. NEWMAN, PROFESSIONAL STAFF MEMBER

Mr. NEWMAN. Mr. Chairman and members of the subcommittee, I am Richard Newman, a temporary staff member on the Subcommittee on Defense Procurement. I was assigned to the subcommittee to prepare with Mr. Ward a report on the "Background Material on Economic Aspects of Military Procurement and Supply."

I shall review certain current supply management practices in the Department of Defense.

An excellent supply system study was completed last October in the Department of Defense on two segments of general supplies: "Administration and Housekeeping Equipment and Supplies, and Handtools." The conditions prevailing in this narrow area are believed to be symptomatic of supply management conditions prevailing in the broad area of all general supplies as well as in all other common-use supplies.

I shall therefore highlight this report and expand on this study's principal findings and conclusions. This is along the line that Mr. Curtis just mentioned, of his interest in the operation of the entire system. This was the first study made by a new agency that came into being about a year and a half ago, known as the Armed Services Supply Support Center, of which Mr. Hangan is the director. It was established on the recommendation of the Assistant Secretary of Defense for Supply and Logistics, Mr. McGuire, to Secretary McElroy, to rectify a serious gap that existed in the organization of the Defense Department. There was no central group devoting itself primarily to ferreting out problems in interservice supply operations and to identifying opportunities for economy through improved coordination or integration.

The Center's study followed the concept of examining in depth a manageable size family of items through the entire supply cycle. It starts with the initial requirements determination by the military planning authorities, continues through setting the net procurement requirements, making the contract with industry, positioning the material in storage depots, and finally distributing the supplies to the user.

This functional analysis was made both within and among the four military services and also in the General Services Administration. It was, I might add, along the lines of the study objective that Mr. Ward mentioned, that was started in 1951 as the result of the Bonner committee studies, but was discarded in 1953: This analysis was to determine the feasibility of assigning to a single military department the responsibility for procurement, distribution, including depot storage, issue, and maintenance of common categories of supply.

You recall, Mr. Curtis, that as a result of the prodding by the Bonner committee, there were supply system studies for subsistence and medical supplies and automotive equipment set up in the Munitions Board.

Representative CURTIS. Coffee roasting, I believe, was their first report.

Mr. NEWMAN. Coffee roasting was a part of a subsistence study.

Representative CURTIS. I think the first one they did was coffee roasting.

Mr. NEWMAN. Yes, it was.

Representative CURRIE. Incidentally, just for the record, I made a speech on the floor of the House on January 11, 1953, on page 383 of the Congressional Record in which I discussed this very thing. I wonder if I might read part of it just to show the size of this subject. I quoted in the record a statement from the Department of Defense, dated January 6, 1953, on the subject of distribution of military coffee. Here is the quote:

On the basis of current military coffee consumption in the United States, the Munitions Board reckons a reduction of \$50 million in green bean inventories, together with parallel savings in storage space and personnel costs.

We are talking about a coffee bean. I started to say we were not talking about peanuts. We were not talking about small items. I paralleled this by pointing out that that year the military had a requirement of \$3 billion for warehousing. Just imagine the amount of warehousing required for \$50 million worth of green coffee beans. That is just one item. Pardon me for interrupting.

Mr. NEWMAN. That is perfectly all right. I am very familiar with the situation in coffee, Congressman, because I was on that study.

The CHAIRMAN. Is the Defense Department still roasting coffee?

Mr. NEWMAN. No, sir, they are not. They stopped roasting coffee in 1956.

Shall I proceed, sir?

The CHAIRMAN. Go ahead.

Mr. NEWMAN. This table shows the number of items in general supplies.

(The table referred to follows:)

Number of Items in general supplies

Administration and housekeeping supplies.....	25, 000
Handtools.....	50, 000
Hardware and abrasives.....	520, 000
Construction equipment and supplies.....	100, 000
Automotive equipment and supplies.....	325, 000
Electrical/electronic supplies.....	190, 000
"Other Type" general supplies.....	300, 000
Total	2, 310, 000

Source: Armed Services Supply Support Center, General Supplies Study Model.

LACK OF STANDARDIZATION

Mr. NEWMAN. The term "general supplies" has different connotations in the military services. In the broader sense it includes the identifiable segments as shown on this table. There are 2,300,000 items. They represent about 70 percent of the 3.4 million items in the supply systems of the Department of Defense.

All items in the military supply systems have been identified by description and individual stock numbers in the Federal catalog. As of the end of 1958, the services were 100 percent converted to these numbers at their warehouses all over the world. The cataloging program, which cost over \$200 million, has now reached the point where real dividends should be realized from standardization and other supply management programs. One million dollars a year can be saved in management expenses alone for every 1,000 items eliminated from the supply system, according to estimates of the Department of Defense.

The highly important objective of standardization program is to consolidate specifications and to reduce the number and variety of items in the military supply systems. There will be a period of years before the program will have completed the initial analysis of existing items and the Department will be in a position to screen only new items for military supply systems.

A recent study in the Department showed that about 52 percent of the 3.4 million items identified under the Federal catalog system is common to two or more services, although only 14 percent has the same stock numbers. Thus about 38 percent, or 1.3 million items, while having similar fabrication or manufacture, differs among the services in such relatively minor respects as in color, finish, markings or in terminology. For instance, a mop in the Army was formerly identified as a swab in the Navy under a separate number.

The need for shortcuts to accelerate the reduction of items in the supply systems and achieve a high degree of common use has been recognized by the Department of Defense, but efforts to date appear to have only scratched the surface. This is indicated in the next table.

Summary of item commonality in general supplies study model as of Sept. 4, 1950

Federal supply group	Name	Number of items	Number of items used by 2 or more military services	Percent of commonality
51	Handtools.....	50,373	13,042	26
71	Furniture.....	2,570	215	8
72	Furnishings.....	887	109	10
73	Food equipment.....	4,857	852	14
74	Office machinery.....	2,000	70	3
75	Office supplies.....	6,303	1,003	17
77	Musical instruments.....	302	308	37
78	Athletic equipment.....	355	125	35
79	Cleaning equipment.....	770	188	24
81	Containers.....	4,032	617	13
85	Toiletries.....	127	46	36
88	Paper.....	320	31	10
99	Miscellaneous.....	1,755	137	8
	Administrative and housekeeping.....	25,110	3,601	14
	Total.....	75,480	10,613	22

Source: Armed services supply support center, general supplies study model.

The CHAIRMAN. Mr. Newman, before you turn to that, you are saying in your judgment approximately 1.3 million items could be discontinued or amalgamated.

Mr. NEWMAN. This is the area where it is possible to reduce many hundred thousands of items from the supply systems. They could be coordinated.

The CHAIRMAN. And that the extra cost per item is approximately a thousand dollars.

Mr. NEWMAN. Yes. If the Department of Defense eliminated a thousand items from their supply system, they would save, according to their own estimates, a million dollars a year.

The CHAIRMAN. That is a thousand dollars an item.

That would mean savings of \$13 million from the elimination of these 13,000 items.

Mr. NEWMAN. This is according to a statement made on December 9, 1959 by Mr. McGuire, the Assistant Secretary of Defense for Sup-

ply and Logistics, in a speech before the Standards Council of The American Standards Association.

BIG OPPORTUNITY FOR SAVINGS

The CHAIRMAN. I would certainly recommend to the Department of Defense that there is gold in those hills.

Mr. NEWMAN. That is right.

Here is a summary of item commonality of the most common-type items in the Defense system. The administration and housekeeping type items have a commonality factor of just 14 percent. In other words, out of 25,000 items in that class, only 3,601 items are common among the services. The commonality runs from 3 percent for office equipment to 37 percent for office supplies. Only 8 percent of furniture items are used by two or more services.

Representative CURTIS. What you are saying is that the extent to which they have made them common.

Mr. NEWMAN. Yes. To the extent that they have identical catalog numbers.

Representative CURTIS. All right.

Mr. NEWMAN. As a result, you can not cross-service these items that are only superficially different and have different stock numbers.

Representative CURTIS. If I may point up your testimony, these are all from their very title that could be 100 percent common.

Mr. NEWMAN. A very high percentage, at any rate.

The CHAIRMAN. For instance, if I may be vulgar, you don't need different toiletries between the services, isn't that true?

Mr. NEWMAN. It would not seem so.

The CHAIRMAN. You don't need different types of paper or different types of office machinery or office supplies or musical instruments or athletic equipment.

Mr. NEWMAN. This seems to me to be a very important aspect of the supply problem.

Representative CURTIS. Do they use the same kind of piccolo in the Army Band that they do in the Marine Band? I guess they do.

Mr. NEWMAN. I don't know, but all musical instruments have only 37 percent common use.

Representative CURTIS. Is this Mr. Hangen's group's study?

Mr. NEWMAN. Yes. It was a very objective study. It was one of the finest studies I have seen come out of the Defense Department on supply systems. It followed the same concept that was discontinued in 1953.

Representative CURTIS. It sounds to me that Mr. Hangen was a little modest when he said he was just taking care of disposing of garbage. If he conducted a study like this, he certainly has really been in this field trying to figure out how this stuff got there.

Mr. NEWMAN. That is right. The primary purpose of the Armed Forces Supply Support Center is for just this sort of thing. It is a shame such studies were dropped in 1953, because if these findings had been made at that time, very substantial savings could have been effected during the 6-year period.

Representative CURTIS. After they did it, no one acted upon it.

Mr. NEWMAN. You mean the supply systems studies that were discontinued in 1953?

Representative CURTIS. Yes.

Mr. NEWMAN. They were not started again until a year ago.

The **CHAIRMAN.** May I say in this connection, I think this is fine. We have noticed very frequently that the Defense Department and other agencies get spurred into action when congressional committees start an investigation. We have served notice on this matter last year, that we wanted some action, and I am very glad to see a little action is being taken.

ABSENCE OF A VIGOROUS PROGRAM

Mr. NEWMAN. I think congressional interest is very stimulating, sir.

The commonality of handtools at 25 percent is somewhat higher than the administration items, even though there is a much higher proportion of military peculiar items in this category of supplies. Significantly, the study group's findings were that the small percentage of common-use items in both classes is due to the absence of a vigorous program among the services to implement existing published standards.

The **CHAIRMAN.** Mr. Newman, the table shows that in office machinery only 70 items out of 2,000 were common items to 2 or more military services and the percentage of common use was therefore only 3 percent.

Mr. NEWMAN. This is right, sir.

The **CHAIRMAN.** There is no need for that wide variation in typewriters, mimeographing machines, ditto machines, stapling machines. Those should be sufficiently standardized to be almost duplicated across the board.

Mr. NEWMAN. It would seem so to me, sir.

The **CHAIRMAN.** As I said, this is devastating. This study was on items which perhaps far more than the average lend themselves to common use.

Mr. NEWMAN. Yes, they are. They are practically all commercial-type items.

Representative CURRIS. Incidentally, one of my pets to illustrate the point I notice is not on there. That is supplies for the various chaplains corps.

Mr. NEWMAN. This comes under a different classification, Mr. Curtis.

Representative CURTIS. I always thought that we could have common items between the Air Force, Army, and Navy, when it came to religious worship.

Mr. NEWMAN. It would certainly seem that many items would be of the common-use type.

May I proceed?

The **CHAIRMAN.** Yes.

STANDARDIZATION STUDIES

Mr. NEWMAN. There are some 50 service assignees responsible for planning, scheduling, and coordinating the efforts of the four military services in standardization studies. However, the single managers lend themselves much better to standardization analysis than do the individual services monitorship assignments because of their wider perspective. They are thus able to recognize superficial differences and eliminate duplicate terminology in numerous items of supply as well as keep new duplications from cropping into the system.

The single manager for clothing and textiles assigned to the Army illustrates this point. Since this single manager was established early in 1956, 10,246 stock numbers equal to 23 percent of the original amount inherited from the services were eliminated from the inventory. Thus, in addition to the reduction in the pipeline investment, there have been reductions in costs from the elimination of the administration and physical actions involved, such as requisitioning, stock control, procurement actions, storage and handling and maintenance of the many records at each level in the military structure. At savings of a million dollars annually for every 1,000 items eliminated from the system, this one single manager is presently saving more than \$10 million each year from this source alone.

What is equally significant is that items with multiple uses have increased from 3,976 to 7,086, an increase of 78 percent. Further, these are items that have rapid turnover and account for a very high proportion of the total issues of the single manager.

The next table shows a summary of financial inventory management in the model study on general supplies.

Summary of financial inventory management of the general supplies study model

(Millions of dollars)

	Inventory December 1958	Procure- ment fiscal year 1959	Issues fiscal year 1959	Long sup- ply amount
Army	158.0	44.5	65.2	51.2
Navy	107.9	44.7	38.4	21.4
Air Force	52.0	23.2	33.7	12.1
Marine Corps	21.5	3.0	6.4	15.3
Total	349.4	115.0	142.7	10.00

The financial inventory position improved during the year as procurement was about 20 percent less than issues. The total in the last column, \$100 million, is the amount of long supply in the general supplies model study. Long supply is the amount of stock over the sum of operating and mobilization requirements. However, since there are wide differences among the services in amounts allocated to operating and mobilization requirements, as will be seen in a subsequent chart, this table gives a very conservative estimate of stocks in long supply.

It should also be noted that very little technological obsolescence is generated in this type of supplies.

INADEQUACY OF SINGLE DEPARTMENT PROCUREMENT ASSIGNMENTS

The next table shows the participation by the services in the single department procurement program.

Service participation in single department procurement

	Millions
Army	\$15.2
Navy	12.6
Air Force	1.8
Marine Corps .....	.6
Total	30.0

The CHAIRMAN. Mr. Newman, let me see if I understand. These are items of general stores.

Mr. NEWMAN. A segment of general supplies. It includes just the administration and housekeeping supplies and handtools.

The CHAIRMAN. These are common use items.

Mr. NEWMAN. Yes, extremely common use.

The CHAIRMAN. From approximately \$350 million, \$100 million was completely excess.

Mr. NEWMAN. According to the report, it is considerably more than that, as I will show later.

The CHAIRMAN. At least a hundred million?

Mr. NEWMAN. Yes.

The CHAIRMAN. That would be about 28 percent of the total?

Mr. NEWMAN. Yes, sir.

The CHAIRMAN. These were items that could be easily replaced by purchase from suppliers?

Mr. NEWMAN. That is right, sir.

Representative CURTIS. You could get them in the hardware stores.

Mr. NEWMAN. A great many of them.

The CHAIRMAN. We are not talking about planes, tanks, guns, missiles, or anything of that kind?

Mr. NEWMAN. No, sir.

Representative CURTIS. We are talking about furniture, common items and so forth?

Mr. NEWMAN. Yes.

The CHAIRMAN. Expendable items?

Mr. NEWMAN. Yes, or consumable.

The CHAIRMAN. GI issue items?

Mr. NEWMAN. GI issue to a very large extent, sir.

Representative CURTIS. I noticed the Air Force on your chart has only got 1.6 million participation in single department procurement.

Mr. NEWMAN. This is a very interesting revelation. The Air Force has circumvented the O'Mahoney amendment and therefore has participated to only a minimal extent in the single department procurement, as I will discuss.

Representative CURTIS. Before you get to it, may I ask that is not because the Air Force didn't have a supply system. They were supposed to rely on the Army, weren't they?

Mr. NEWMAN. That is right.

Representative CURTIS. They have actually gotten into it themselves now?

Mr. NEWMAN. Actually, what has happened here is that as a result of the O'Mahoney amendment, the Air Force was specifically prohibited by a Department of Defense directive, 4000.8, from setting up its own supply system.

Representative CURTIS. May I say for the record, the Bonner committee back in 1951 were told by high-ranking Air Force officers here in Washington, D.C., that they were not setting up a common supply system in Europe where we heard they were. So we took a trip to Europe and found out they were doing exactly what they said they were not.

That is some of the difficulty in this thing.

Go ahead, I am sorry to interrupt.

Mr. NEWMAN. Certain classes of administration supplies and hardware have been assigned for single procurement among Army, Navy, and General Services Administration. The philosophy behind the single procurement arrangement is for the Department of Defense to

realize the advantage of volume buying by obtaining the best price and contract terms.

Other benefits of this technique are derived from the prevention of interservice procurement competition and from the orderly placing of contracts with small business and in depressed labor areas to meet certain objectives laid down by Congress. Yet, out of a total reported procurement of \$115 million, in administration supplies and hand tools during fiscal 1959, only \$30 million or 25 percent were made under single procurement.

The services' participation in this key Department of Defense management technique is far less than would be expected.

The National Security Act of 1947 specifically provided for the greatest practicable allocation of purchase authority, of technical equipment, and common use items on the basis of single procurement.

There are 33 single department procurement assignments. Three of those, office furniture, office equipment, and office supplies, are assigned to General Services Administration. The only large commodity group not covered by some form of coordinated procurement is electrical and electronic supplies. It should be noted that single department procurement assignments centralize only the purchasing function in one service. Requirements determination, inventory management, distribution, and other supply functions remain in the separate military services.

Representative CURTIS. That is almost as large an item as the others?

Mr. NEWMAN. Sears Roebuck could do the single procurement for the services. The assignee just acts as a purchasing agent. They do some contract followup. The benefits of single department procurement mentioned earlier are, however, being negated to a large extent by conflicting department policies.

On the one hand, the requiring services are permitted to procure directly at the local level, while on the other hand, the use of central procurement assignees is discretionary with the requiring services.

In other words, the Defense Department is not applying the provision in the National Security Act requiring central procurement to the greatest extent possible. The services are only using central procurement to a very minor extent.

CIRCUMVENTING THE O'MAHOONEY AMENDMENT

In answer to your question, Mr. Curtis, the Air Force was prevented by the O'Mahoney amendment of the Defense Appropriations Act of 1953 from setting up without prior permission from the Secretary of Defense a supply system for common-use items which were being furnished to that service by the Army under the Eisenhower-Spaatz agreement.

To circumvent this restriction, the Air Force greatly expanded the authority for local purchasing at its bases and at the same time placed no geographical limitation on purchasing locally.

A recent Department of Defense survey of 100 common items showed that the Air Force centrally managed only 8 items while the Army managed 64 items and the Navy 86 of the same items.

Representative CURTIS. In other words, by doing it that way, the Air Force was able to get around, technically, the O'Mahoney amendment, but certainly in spirit and intention it was a deliberate violation.

Mr. NEWMAN. That is my feeling.

Representative CURTIS. It is mine, too.

Mr. NEWMAN. Appropos of your observations, another survey showed that 63 percent of Air Force local procurement was done with business firms located more than 100 miles from the procuring bases.

The CHAIRMAN. In other words, it was not local purchase at all.

Mr. NEWMAN. That is right. In fact, in many cases it was essentially procurement, nationwide.

Representative CURTIS. Was that done by any directives that some general signed, or was this done by a sort of just understanding?

Mr. NEWMAN. No directives were issued by the Department of Defense.

Representative CURTIS. Sort of by osmosis, the word got around.

Mr. NEWMAN. Yes.

Prior to the time of the O'Mahoney amendment the services' cooperation with GSA was practically nil. Immediately after its passage and following the implementing regulation, the Air Force started to cooperate with General Services Administration.

I believe there were about 11,000 items it arranged to get from General Services Administration, but 145,000 additional items were coded for local procurement.

Other than those commodities which are single managed, that is, food, clothing, medical supplies, and petroleum products, there is now little coordination in the Defense Department on procurement of common-use material, whether local or central, because of these conflicting policies that I mentioned.

Consequently, the Army or the Navy may have large depot excesses while the Air Force bases are procuring the same items locally. Moreover, since there is no coordination among the Air Force bases before making local purchases, the excess stocks will frequently be available within that service itself, as well as between the Army and the Navy.

The single department procurement program whereby a particular service acts as a purchasing agent on centrally procured items for all other services has basic limitations. Planning of requirements is not coordinated, and the purchasing service is not informed of the inventories and usage rates of the requisitioning services. Thus the purchasing service cannot evaluate requests in light of supplies or take steps to redistribute excess stocks to reduce inventory investments. Further, coordinated buying alone does not achieve integration of storage and distribution where a large amount of duplication exists.

To counteract some of these inherent limitations, the Defense Department has a number of cross-servicing arrangements aimed at providing greater use of defense assets among the services. However, these arrangements are at best temporary expedients and their effectiveness depends largely on the cooperation of the services' independent supply systems, which differ widely in their organization and procedures. Many attempts have been made in the past with minimal success to bridge the gap between the purchasing and the distribution functions.

The CHAIRMAN. Mr. Newman, before we go to the next point, your testimony suggests the obvious question.

To the degree that you have a single-manager system now for certain items, would it not be better to have this done directly under the Department of Defense rather than farmed out to specific services?

UNIFICATION OF COMMON SUPPLIES IS INEVITABLE

Mr. NEWMAN. This study that I referred to, sir, seemed to raise this fundamental point, obliquely at any rate. In 1955 and early 1956 the Department of Defense established four single-manager plans. These were set up at that time as a compromise of the recommendation of the Hoover Commission calling for much more drastic unification for common supplies and services. In fact, Senator, the Commission's recommendation was substantially along the line of the bill you proposed in 1953. Since 1956 no additional single manager plans were started until the single managers for two small groups were announced for January 1, 1960. If a few more single managers are adopted there is bound to be a great need for an administrator for all single managers.

As I mentioned, the study group appeared to be getting closer to this point as it recommended that there should now be an integrated distribution system. The group also recommended uniform procedures and funding for all single managers.

Even the Secretary of Defense concurred in the report. They are very gradually getting around to recognizing the logic of unification, it seems to me. The big question is, who will operate the organization?

The CHAIRMAN. It takes a long time to get there. I will believe it when I see it.

CUTTING UP THE PIE

Representative CURTIS. You mentioned "cross-servicing" and "single manager." You did not mention the term "parceling out." Have you heard that term?

Mr. NEWMAN. In that connection, the Department of Defense set up the single managers, you will recall, after the so-called "hamburger hearings."

Representative CURTIS. I sat in on the "hamburger" hearings, although I was not on the committee at the time.

Mr. NEWMAN. I recall your big contribution, Congressman. After those hearings the Department of Defense set up a single manager plan for subsistence under the Army in November 1955.

It was only 1 year before, in 1954, that the Assistant Secretary of Defense for Supply and Logistics, Mr. Pike, wrote to Mr. Riehlman, who became chairman of the committee in the 83d Congress (formerly headed by Mr. Bonner) that unifying on a commodity basis was a fractionation of the supply system and that the Department of Defense would not go along with this concept. Then the Department reversed its position by making the Army the single manager for subsistence.

Representative CURTIS. That is right.

Mr. NEWMAN. Then, to offset that, they established a single manager plan for medical supplies under the direction of the Navy. This was done despite the fact that the Army was furnishing medical supplies to the Air Force. In addition the Army ran a feasibility test at Alameda, Calif. to see if the Army could supply the Navy with medical supplies in the Pacific Ocean area as it was doing for the Air Force.

Representative CURTIS. Exactly. At this point I would like to read into the record again what I said in the January 1953 speech on the floor of the House, at page 386 of the Congressional Record of that date:

The strategic retreat consists not in really unifying the coffee business, the military is in, but in parceling out. This term "parcel" is a beauty and was supplied to me by one of the high military men testifying before our subcommittee last December. Our committee was studying the possibilities of the unification of medical supply procurement and distribution for the Army, Navy, and Air Force.

To further the study, we urged the test made at Alameda, California, where the Army took over the job of supplying all services on the West Coast area, including most of the overseas areas of the west coast and, most important of all, including supply in Korea where a war is going on. The result, to the horror of the Navy in particular, showed the test to be eminently successful.

We thought then the answer would be for the services to immediately unify all medical supply procurement and distribution in one service, incidentally in accordance with the very clear language of Secretary Lovett's directive setting up the test. Not at all. We come up with a parceling idea. The Army will handle the show for the Navy and Air Force for the West, but the Navy will get its parcel and handle the show for the Army and Air Force in another area, and the Air Force, not to be without a parcel, will set up a medical supply system in force because it has none now so it can assume its parcel and service the Army and Navy in that area.

Absurd? Yes. But absurdity makes no difference for men fighting for their own bureaucratic empire.

I am happy to say in the medical we did get that thing unified.

But this idea of parceling seems to be well within the system. Each service is given its little empire rather than put it on the basis of what really would be the most efficient supply management.

I simply want to interject that, because when we have the military witnesses before us, I think we are going to hear some more of this parceling they have been doing, claiming they are really bringing about unification.

Mr. NEWMAN. Along that line, the Department of Defense made a feasibility study for administration supplies and handtools. It gave the single manager assignment to the Army, but to offset that, it gave single management for handtools, abrasives, paint, metal bars, and other related items to the Navy. This was done without a feasibility study.

Representative CURTIS. The whole object seems to be that if someone is going to have to do something for the other, then the other, in order to keep an empire going, is going to be assigned something to do for the first.

I have never found out whether they corrected inspection of petroleum. Instead of having one petroleum inspection crowd, the Navy was going to do it for the Army and Air Force in the center of the country, and the Air Force on the west coast for the others, and the third service on the east coast. As far as I know, that is what they are doing. Do you happen to know?

Mr. NEWMAN. The Department of Defense set up a single manager plan for petroleum products. This is under the cognizance of the Navy. It offset the assignment of clothing and textiles to the Army. But the Air Force, which is the big user of petroleum products, has refused to let the Navy handle for it the storage and distribution of these supplies.

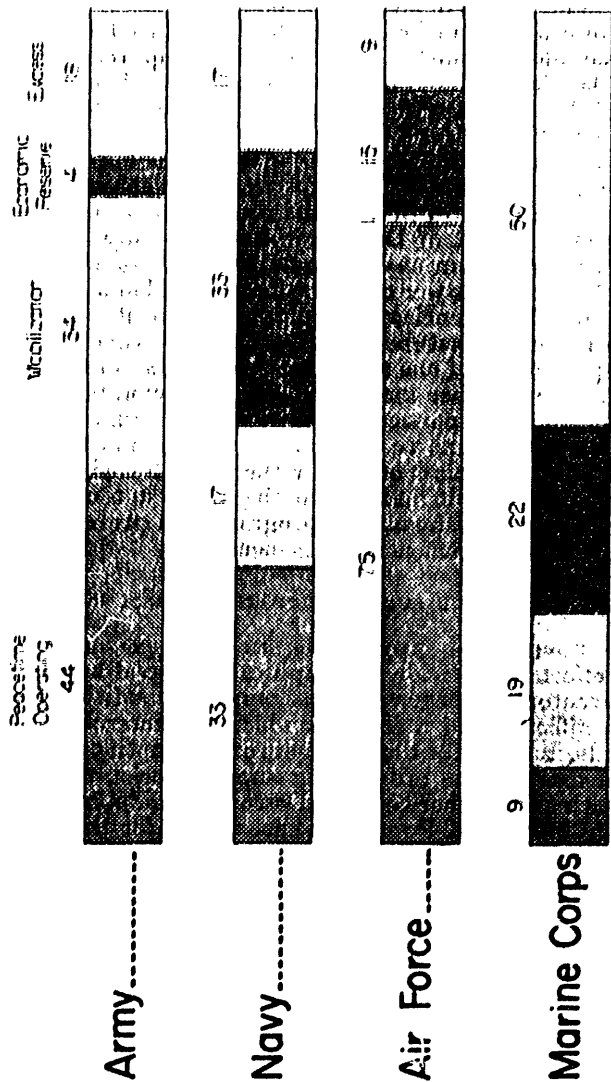
While the Department of Defense is calling petroleum products a single-managed commodity, it is actually a single service purchasing arrangement.

Representative CURTIS. I see. Many devices to get around the real purpose and intent of unification.

INADEQUATE INTEGRATION IN REQUIREMENTS PLANNING

Mr. NEWMAN. This chart shows that there is an absence of specific criteria among the services with respect to requirements for peacetime operations, mobilization needs, economic retention levels, and stock designated as being excess of needs.

Percent Distribution of Inventories of General Supplies Study Model Among the Services



Source: Armed Services Supply Support Center, General Supplies Study Model.

The amount of long supply stocks, that is, economic reserve plus excess stocks, is high. It is conservatively estimated at almost one-third of the inventory. Since there is little obsolescence in these

supplies, this condition is due largely to uncoordinated requirements determination.

The model study states that the integration of requirements under consolidated management would immediately exploit the maximum utilization of resources within the Department of Defense. The computation of requirements is the most important function in the supply cycle. This is where costly mistakes start.

There is an urgent need to establish realistic levels of requirements. For example, in a survey of mobilization requirements planning practices, the check of 100 common items which I mentioned previously showed that the Navy keeps reserves for 72 items out of 100; the Army, 50 items out of 100, and the Air Force, none.

I will digress for a moment to give the committee some background with respect to the exchange of assets among the services and the part mobilization reserves play in the computation of requirements.

The Department of Defense initiated in July 1955 a new program to require maximum use of assets in the military supply systems. It was intended to answer certain congressional and Hoover Commission criticisms of deficiencies in supply management.

The principal feature of this program is that before procurement the requirements of one service are checked against the availability of like items in another service. The top echelon people in the Department of Defense, particularly in logistics, established 33 commodity coordinating groups to interchange assets among the services. In practically every class of supply there was a commodity coordinating group. Because it maintained the status quo of the services' independent supply systems, this program was preferred by the services over single management arrangements.

INTERSERVICE SUPPLY SUPPORT PROGRAM IS INEFFECTIVE

The interservice supply program has not succeeded despite this great effort. The wide geographical dispersal among the services of the inventory managers, of the same commodities, makes communication difficult, and it is not conducive to interchanging assets. For example, in order for the managers of automotive supplies to exchange information on the use of long supply stocks, they must communicate with one another between Detroit for the Army and Memphis for the Air Force and Port Hueneme, Calif., for the Navy; and Washington for the Marines.

There are a total of 58 inventory control points or program managers for the various commodities required by all the services. Yet only five of these service program managers for particular classes of commodities are located in a geographical area approximate to the service with single service procurement responsibility. After closely examining the interservice supply support program, the general supplies study group concluded: "The coordinative process, both in resources exchanged and commodity system improvement, is lagging for reasons beyond the control of the commodity coordination groups." This is apparent, for out of a total procurement of \$115 million of administration supplies and handtools, only an estimated \$1 million was exchanged among the services or less than 1 percent of the total procurements in the year. That is despite all this great effort.

GIVING MISINFORMATION TO CONGRESS

I might say also, Senator Douglas, that when you and Senator O'Mahoney were trying to strengthen the O'Mahoney amendment in 1957, the Department of Defense wrote to Senator Chavez indicating that there was no need for your amendment because the Department has this interservice supply support program which it claimed was extremely effective.

When the Department of Defense wrote that letter, they were at the same time exchanging correspondence between the Interservice Supply Support Committee, the Assistant Secretary for Supply and Logistics, and the Assistant Secretary (Comptroller), in which the committee stated that the program was not succeeding because of certain fiscal impediments. They knew this when they wrote that letter. This is on pp. 145-152 of the staff report.

The CHAIRMAN. Who addressed this letter to Senator Chavez?

Mr. NEWMAN. It was signed by the Secretary of Defense.

The CHAIRMAN. Was that Mr. Wilson?

Mr. NEWMAN. Mr. Wilson was Secretary of Defense at the time. But his assistants who prepared the letter knew that the program was completely ineffective at the time.

The CHAIRMAN. How can we operate in Congress when we get statements of purported fact which we have to rely upon which were untrue?

Mr. NEWMAN. The purported facts in that letter, sir, were untrue.

Representative CURTIS. I might say to the Senator I think this is what we are unfortunately going to pinpoint in these hearings. I do not know why this operation has been going on.

I want to say this, Senator: I do not believe it is, and I hope it does not get to be a partisan political issue.

LACK OF APPLICATION OF LEGISLATIVE AUTHORITY

The CHAIRMAN. No. Congressman Curtis and I frequently clash on points, but I think we are together on this.

Let me say it existed under the Truman administration just as much as under the present administration.

Representative CURTIS. It is the problem of civilian control over the military. I will even say about those individuals in the military, even those who might sign these things, I guess they are convinced that they are right. But we cannot operate Government in this fashion.

This to me is one of the most tragic things I have seen in 10 years I have been in Congress. There is this deception and a deliberate attempt to get around what these people know what Congress intends to have done.

Maybe Congress is wrong, but for heaven's sake if we are wrong let these officials come out with the facts and show it to be wrong. It is obvious to me that we have been right in our criticism that the system is not functioning the way it might. The sum of \$26.7 billion is surplus and may be explained, but it is pretty conclusive on its face, and needs explanation. When we examine into the items, we see that there is something sadly lacking in this military procurement system.

Pardon me for interrupting.

The CHAIRMAN. No. What you are saying is very appropriate. I think some matters can be removed from the field of political contest.

I do not think this is the fault of the politicians of either party. I think it is the fault of big military and big business, so to speak.

Representative CURTIS. Let me say this: I think those in political office can be blamed for not doing more than they have, but it is this personnel turnover that is at fault. Only being in there one or 2 years, just long enough to find out what is going on, and then going somewhere else cannot produce the follow through necessary to get this job done.

The various Assistant Secretaries of Defense, the various Secretaries of Defense, have never gotten hold of this situation. I regret to say many of the military leaders under them have been deliberately deceiving them as well as the Congress.

The CHAIRMAN. You may proceed.

COVERING UP ON LONG SUPPLY ITEMS

Mr. NEWMAN. Yes, sir.

There is another reason that the program for the interchange of assets has not worked. Inventory managers are reluctant to buy from another service releasable assets which may have been in stock for a considerable period of time. When they can get new stock on the market at the same price. In an attempt to counteract this quite natural condition, the Department of Defense in 1958, required the services to transfer stocks in long supply on a nonreimbursable basis against valid requirements of the other services.

As a result of this regulation, it is significant that inventory managers were recomputing supplies as mobilization requirements for the purpose of retention only. Such assets, which previously fell in the category of long supply, and thereby were subject to transfer without reimbursement, are now being categorized as mobilization requirements.

In other words, these inventory control points are using mobilization reserves as a convenient coverup for long supply items.

This is a quite disturbing condition which was pointed up by the general supply study.

Representative CURTIS. Which general supply study?

Mr. NEWMAN. The study for the two segments of general supplies, administration and housekeeping supplies and handtools.

Representative CURTIS. I just wanted to identify it for the record.

Mr. NEWMAN. It is interesting to note that mobilization requirements in the Army are 34 percent of its inventory of these particular supplies. In the Navy, they are 17 percent. The Air Force has only 1 percent; and the Marine Corps has 19 percent of its inventory classified as mobilization requirements.

In other words, the Army feels they need 34 percent of these supplies for mobilization requirements and the Air Force feels they can get along with 1 percent for mobilization requirements.

Representative CURTIS. Would you name a couple of specific items?

Mr. NEWMAN. Yes.

Representative CURTIS. Would furniture be an example?

Mr. NEWMAN. Yes.

Representative CURRIS. Mobilization has nothing to do with furniture?

Mr. NEWMAN. Certainly not.

Representative CURRIS. Or musical instruments or athletic equipment?

Mr. NEWMAN. After some of these items were declared in long supply the Department of Defense came out with a regulation to facilitate interservicing of assets requiring material in long supply be transferred without reimbursement.

The inventory managers do not want to get rid of assets. So they recomputed many of these items and put them back into mobilization requirements. It looks as if they are playing a sort of shell game with mobilization requirements.

Representative CURRIS. On those hamburgers, when we got that many hamburgers what were those?

Mr. NEWMAN. They were canned hamburgers for combat.

Representative CURRIS. They could not move those in and out?

Mr. NEWMAN. The trouble with those canned hamburgers and a number of other comfort food items was that one service had no program for rotating them by serving them periodically before they spoiled, as other services were doing.

Representative CURRIS. That is right. I recall that.

LACK OF UNIFORM CRITERIA ON USE OF STOCK FUNDS

Mr. NEWMAN. The next table shows that the services have not applied uniform criteria to stock fund operations.

It shows that with the exception of the Air Force, all the other services had in excess of 90 percent of their administration supplies and handtools stock funded. Less than 4 percent of the Air Force materiel of \$52 million was under this arrangement. As in all other functional areas of supply reviewed, there is little semblance of uniformity.

(The table referred to follows:)

Stock fund operations in general supplies study model

[Millions of dollars]

	Stock funded	Nonstock funded	Total	Percent stock funded
Army.....	148.0	10.0	158.0	93.4
Navy.....	93.7	2.2	107.9	93.0
Air Force.....	2.0	50.0	52.0	3.8
Marine Corps.....	29.3	2.2	31.5	93.0
Total.....	273.0	71.4	344.4	50.0

Source: Armed Services Supply Support Center, General Supplies Study Model.

The CHAIRMAN. The other services are 93 percent funded.

Mr. NEWMAN. That is right. If these techniques are good, why should they not be good across the board?

Representative CURRIS. On the stock funded items, the Air Force is the one that is out of step with the other three services. Actually the Air Force says it is doing an adequate job and inasmuch as it costs about \$30 million dollars to set up the stock fund, instead of having the

Air Force do what the other three are doing, maybe the other three should be doing what the Air Force is doing.

Mr. NEWMAN. This could well be.

My point in showing the chart, Congressman, is to indicate the lack of uniformity in these techniques among the services.

Representative CURRIS. Then we can study which one is right. We have about \$100 million in these things that we may not need.

Mr. NEWMAN. The model study points out that existing regulations for single manager stock funds for purchases at field installations cause unwarranted duality of control at that level. Any plan of consolidated management for the material reviewed should provide that stock funds extend only to the wholesale level.

In other words, the single managers have a wholesale stock fund. When the services buy from the single managers they reimburse these stock funds. But the services use their own retail stock funds to buy material from the single managers. The material in turn is sold to the consuming activities against appropriated funds.

The group of the model study contends that if the retail stock fund level was eliminated it would not only be more effective, but would also provide a one-time saving to the Government of the assets tied up in these retail stock funds.

INADEQUATE INTEGRATION IN USE OF FACILITIES

Representative CURRIS. Yes, that is what I thought was possible.

Mr. NEWMAN. According to the general supplies model study which the Armed Forces Supply Support Center prepared and which is a very objective study, there is considerable duplication in the services' distribution system.

In almost any geographical region in the United States there are several wholesale depots and quasi-wholesale supply points, each primarily engaged in supplying the needs of the services with the same supplies.

For example, in the southeastern area of the country the Army Atlanta General Depot, the Army Memphis General Depot, the Air Force Mobile Depot, the Marines depot at Albany, Ga., and the Navy's four primary stock points, at Charleston, Pensacola, Jacksonville and New Orleans are in the business of supplying their consumer activities with many of the same items.

USE OF THE GENERAL SERVICES ADMINISTRATION

Mr. NEWMAN. The General Services Administration depot system is a reasonably extensive system for support of governmental activities for selected items.

For the range of items stocked, it performs supply support very effectively. The GSA was able to supply 94 percent of its depot items without any delay in fiscal year 1959.

As a result of this performance the military use of the GSA facilities is growing quite rapidly. Both its depot sales and Federal Supply Schedule contracts to the services accounted for about a half billion dollars in fiscal year 1959. This is double the volume of just a few years ago.

You will recall, Mr. Curtis, that as a result of the prodding of the Bonner committee, the Department of Defense made three single procurement assignments to the GSA for office supplies, office furniture, and office equipment. But it took 18 months for the Department of Defense to issue implementing instructions on two of these assignments. On the third it took 8 or 9 months just to issue working guidelines which could have been accomplished in a week. The situation has improved greatly in recent years, particularly in the relationship between the Air Force and the GSA.

However, the individual services currently negotiate separately with the GSA for supply support. This approach fractionates the defense management for the same items and fosters unnecessary duplication in the Department of Defense and in the General Services Administration. The GSA should supply the same items uniformly to all the services.

Of the half a billion dollars of supply support which the GSA is now rendering to the military well over half of that amount is traceable to the Air Force. The GSA is doing it very effectively. In fact, it is doing it so effectively that the GSA is now supplying the same items for the Air Force at the overseas bases as it supplies in this country. My point is that since the GSA is able to provide effective supply support on the common items it is now providing for the Air Force, why should it not likewise provide the same support for the other services.

Representative CURTIS. Yes.

NEED FOR AN INTEGRATED DISTRIBUTION SYSTEM

Mr. NEWMAN. The general supply study group concluded that hand-tools and administration supplies are a fertile area for consolidated management and can effect economies in the inventory investment by—

- (1) consolidation of requirements;
- (2) reduction of stock levels;
- (3) prompt utilization of long supply stocks; and
- (4) reduction of item range.

Further in the distribution system it can reduce costs at (1) inventory control points, (2) depots, and (3) transportation.

The study group also concluded that there is a need for an integrated distribution system regardless of the number of single managers. It is important that all common-use supplies flow through the same distribution system insofar as possible. Further, apart from the desirability of relying on "systems in being," the Army general depot structure lends itself as a nucleus for a single defensewide distribution system.

Representative CURTIS. Yes. Are you still on distribution?

Mr. NEWMAN. I am about to conclude. I just wanted to add that the study group also urges simplified and uniform supply and funding procedures for all single managers.

Representative CURTIS. On the distribution system, that is one thing in particular that I have been deeply concerned about in the common use items, where they are common with civilian use, which is a little different, but a big area.

What have you got to say about the utilization of our great civilian distribution system by the military?

Why can they not utilize our distribution system instead of setting up a duplicate distribution system for things.

I might illustrate. I remember in the Bonner committee in Europe, right after the Berlin airlift, the Air Force was making complaints—some of the officers—that they could not really rely on the Army for common use items. They said “We needed to have an extra supply of pliers, due to the extra maintenance requirements”—I think it was pliers—what would have happened if we had to rely on the Army because the Army could not give it to us.

I said, “I thought the Berlin airlift was a success.”

They said. “It was.”

“How did you maintain the planes without the pliers?”

“We had to go out and buy them in the stores in Germany,” they said.

I said, “Is it such a terrible thing to have to rely upon the distributive system of the civilian economy if it is a good one?”

In coffee roasting, the point I was making in that was that that didn't matter whether 10 million of our people were in uniform out of 170 million at that time, or whether it was 5 million out of 170 million, the same amount of coffee would be roasted and distributed and drunk.

Therefore, all we needed was the civilian basic distributive system.

In fact, if we had the military distribute for the mobilized 10 million and set up on that basis, then when they cut back to the 5 million there would be surplus and unused facilities, warehouses, distributive systems, and so on.

So in these kinds of items, and there are a lot of them, where they are human consumption items it doesn't matter whether they are in uniform or not, we surely can utilize the civilian distributive system.

To what extent has the military been using and trying to gear their system around the civilian distributive system?

USING THE CIVILIAN DISTRIBUTIVE SYSTEM

Mr. NEWMAN. Let us talk about coffee. As you had said many times in previous hearings on this subject, the only way to understand the problem is to take one item and follow it through.

Back in 1952 when we studied coffee, we found that in the green bean there was an inventory in the military, as I recall, possibly 150 million pounds of coffee.

Representative CURTIS. I have that figure. They had 193 million pounds and I think the coffee then was 64 cents a pound.

Mr. NEWMAN. That is an investment of over a hundred million dollars on this one item alone. The services claimed that the reason for roasting their own coffee was that it was the only way of assuring quality control.

Representative CURTIS. Yes, I remember.

Mr. NEWMAN. Our survey showed that when the coffee was roasted it was put in hundred pound bags and at many installations we visited roasted coffee was found to be a year old.

As I said, the rationale for the military roasting their own coffee rather than depending on the civilian economy to roast the coffee was quality control. Yet once coffee is roasted and it is not vacuum packed, in a period of 3 or 4 weeks it has lost most of its bouquet and aroma.

Representative CURTIS. I did not know about that. But I remember when we held hearings in California, I found out that they sold coffee in the Navy commissaries and on the Navy commissary shelves Navy coffee was stocked along with the standard brands. The Navy coffee was cheaper than the standard brands.

Yet the Navy housewife when she had her choice bought the standard brand which cost more. I asked the admiral in charge of coffee roasting, "How does your quality control fit into a picture like that?"

Now, I can see why the Navy wife buying for her husband did not buy the Navy coffee.

Mr. NEWMAN. Yes.

Getting back to your original question, about the use of the commercial distribution system, that is precisely what DOD is doing now with coffee. It has stopped roasting coffee. It is using the commercial distribution system and it makes contracts in various regions with roasters for periodical spot deliveries once a week or once every 2 weeks.

Representative CURTIS. Then, using coffee as an example, the military ought to be moving into more and more areas that are similar to it?

Mr. NEWMAN. It is a fruitful area.

Representative CURTIS. And we can utilize the civilian supply system. I am satisfied this \$3 billion in that particular year that they were spending for new warehouse space was a good bit of the unneeded warehouse space we now have.

We were duplicating to a large degree the civilian distribution system for these kinds of civilian type items.

You report here a change, at least in coffee, but in other areas are they beginning to utilize the civilian distributive system more?

Mr. NEWMAN. I would say that DOD is using the GSA, Federal supply schedule contracts which are direct shipments from the vendors to the using military activities.

Representative CURTIS. Another area and then we will go on so you can finish up. Automobile repairs.

I am now talking about standard automobiles.

The military got into that business to a large degree and were stockpiling spare parts.

As near as I know they are still in the garage business, or are they?

Mr. NEWMAN. Within the Government there is a Government competition with business program. The repair of automobiles comes into this particular area. Some of the activities have been closed and some have not, for the reason given that they also repair military vehicles at the same activity.

If you discontinue the automotive part, it would be costing more money, the military contends.

Representative CURTIS. I have heard that and that is to a large degree unsubstantiated, I might state.

Any real study would show that to be unsubstantiated. I might say just for the sake of the record so we do not forget the importance of

the item, it is not just the efficiency we gain in utilizing a system that already exists, warehouses, and so forth, in the private sector, but also I think the efficiency of personnel whose work it is.

When we put a uniform on a person we necessarily are thinking of him in terms of using him for military reasons. He is one of the most costly employees that the Nation can have if we relate, as we should, veterans pensions and programs to the cost of the armed services as we use them.

But beyond that, as a member of the tax-writing committee, I am constantly disturbed at the narrowing tax base. Every time the military runs a laundry or makes paint or warehouses civilian type tires or roasts coffee, they are withdrawing an activity from the tax base that otherwise would help bear all the real military costs.

The whole thing becomes a very grave economic problem and is another reason why the Joint Economic Committee, in my judgment, has been very wise in moving into this area.

FIRST SINGLE MANAGER PLANS ESTABLISHED SINCE 1956

Mr. NEWMAN. I will conclude my remarks, Congressman, by saying again that the first supply system study of the Armed Forces Supply Support Center resulted in an excellent report. The conditions revealed are, I believe, indicative of conditions in all other common-use areas.

A single manager for administration supplies and handtools was established by the Secretary of Defense and assigned to the Army. At the same time, and here we have the parceling out again, he assigned to the Navy and without a feasibility study, a single managership for hardware, paint, and related items.

These are the first commodity single manager assignments since early in 1956. Every study that has been made since that time in the Department of Defense looking at the single manager plans has concluded this is a step forward. But between May of 1956 and January of 1960 no additional plans were established.

(The material referred to follows:)

Single manager plans

Commodity or service	Date of assignment	Single manager assigned
1. Subsistence	November 1955	Secretary of the Army.
2. Clothing—textile	May 1956	Do.
3. Medical material	do	Secretary of the Navy.
4. Petroleum	July 1956	Do.
5. Military traffic management	May 1956	Secretary of the Army.
6. Sea transportation	do	Secretary of the Navy.
7. Air transportation	November 1956	Secretary of the Air Force.
8. Handtools, administration, and housekeeping.	January 1960	Secretary of the Army.
9. Hardware, paint, and metal bars, etc.	do	Secretary of the Navy.

SOURCE: Department of Defense.

Representative CURTIS. There has been a 4-year lapse.

Mr. NEWMAN. Yes.

Representative CURTIS. What was the date of my letter to the Secretary of Defense, Mr. Wilson. I think it was right before the May-July 1956 activity.

I wrote about a 12- or 14-page letter to the Secretary of Defense, just asking these questions.

Then there is a 4-year lapse.

Mr. NEWMAN. It was during this period that they had the inter-service supply support programs which never got off the ground.

Representative CURRIS. We just wrote some letters and I wrote some, too, last year or so. It is not a coincidence in January 1960 that we get the show moving.

Mr. NEWMAN. The Secretary further announced recently that in addition to the establishment of two single managers a single integrated distribution system for all single commodities is being studied. Uniform operating procedures for all single managers are also to be developed to facilitate effective supply operations.

DISTRIBUTION OF PAINT

Representative CURRIS. This paint worries me a little bit. Is the Navy already in the business of distributing paint which means warehousing, and so forth.

I daresay a good bit of paint, or most of the paint, could be procured through the civilian system. I do not know why it could not.

Mr. NEWMAN. I certainly don't know why it couldn't.

Representative CURTIS. The reason I worry about it is that does not paint tend to deteriorate, or do they keep it in a way that it would not.

Mr. NEWMAN. I think it deteriorates, but I am not familiar with this area.

Representative CURTIS. I see. This is a detail, of course; \$6 million worth of paint apparently was declared surplus in a year and a half in 1957 and 1958, which is about 3 million gallons. I do not know whether that is a larger percentage or not. It just worries me.

In the civilian economy, handtool, hardware, paint, are regarded as hardware items in most of our local hardware stores and even big companies relate these items when they procure.

Here, instead of a real unification it is an example of parceling out. I guess the Air Force—what do you suppose the Air Force will get?

Mr. NEWMAN. The Air Force does not seem to be too anxious to get in the area because they were assigned photographic material. They turned it down.

Representative CURTIS. Good for them. Maybe it is because they want something else for their parcel.

Mr. NEWMAN. It is quite possible. Maybe electrical and electronic supplies.

Representative CURTIS. At least this would be a move forward to some degree.

Mr. NEWMAN. I think the single manager plans are definitely a step forward.

NEED FOR UNIFYING THE SINGLE MANAGERS

Representative CURTIS. The thing that disturbs me is that they are a step forward and that is good, but we are going to get to the point where we have a lot of single managers and then the parceling out thing is going to show up for what it is.

We are going to end up with a ridiculous situation with the Army for no earthly reason having its bunch of items, the Navy for no logical reason at all, its bunch of items. Just both of them preserving an empire.

Surely there ought to be a way of getting some sense into this thing and to stop this business of trying to preserve an empire.

My letter that I referred to was January 19, 1955, and after writing the letter and getting no reply, I remember, I had lunch with the Secretary of Defense in June 1955. I wanted to give him plenty of time to have a chance to get it checked through his organization. It was a long letter. The first action I do recall was the single manager plan for subsistence in 1955 and the others were promised to come. I guess we got busy on some other things, which we do and nothing was done from May 1956, or November 1956, up until January 1960.

Mr. NEWMAN. That is right.

Representative CURRIS. Then the McCormack-Curtis amendment was in 1958, which started it up again and now we are holding those hearings.

Mr. NEWMAN. It has a history of stop and go.

Representative CURRIS. Yes. It leads me to believe that there is only one answer to this. The Joint Economic Committee should take cognizance of it. This is such a big part of our economy and so important. I do not know of any committee of the Congress that really has got the jurisdiction over the overall aspects of the economy other than this one.

I think maybe the way to do this is for this committee to establish a permanent subcommittee on this area until the cold war is over and military procurement does not have such a tremendous impact on the overall economy.

Mr. NEWMAN. In conclusion, I believe that the findings of waste and duplication as evidenced in such nontechnical and generally off-the-shelf items as handtools and housekeeping supplies are (1) bound to occur when commercial-type items are independently bought, stored, and distributed by the individual military services rather than under integrated systems; and are (2) illustrative of the existence of even more costly and wasteful supply management practices in the broader areas of common-use, technical type supplies and equipment in the Department of Defense.

Representative CURRIS. Thank you very much. The committee will stand adjourned until tomorrow at 10 o'clock in this room.

(Thereupon, at 5:30 p.m., the committee was recessed, to reconvene at 10 a.m., Friday, January 29, 1960.)

IMPACT OF DEFENSE PROCUREMENT

FRIDAY, JANUARY 29, 1960

U.S. SENATE,
SUBCOMMITTEE ON DEFENSE PROCUREMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. Paul H. Douglas, chairman of the subcommittee, presiding.

Present: Senators Douglas (chairman), Sparkman, O'Mahoney, Javits; Representatives Patman and Curtis.

The CHAIRMAN. The committee will come to order.

We appreciate having Congressman Whitten of Mississippi with us this morning. We know that he has given a great deal of study to this subject and has taken a concerned and intelligent interest in reducing the waste.

The testimony yesterday, Congressman, brought out facts which are doubtless familiar to you, but which I think are not familiar to the general public, namely, the huge expenditures which are involved, the annual volume of military purchases of approximately \$24 billion, a total of \$47 billion of supplies in storage, an admitted excess of about \$27 billion in surplus property.

In addition, there are annular sales of surplus around \$10 billion, with a net return of only 2 percent of acquisition cost, with storage charges amounting to well over \$100 million a year, or one-half of 1 percent of the acquisition cost as an annual charge.

We further developed what I know is a matter of deep concern to you, that the advertised competitive contracts comprised less than 14 percent of the total dollar volume and the negotiated contracts totaled over 86 percent.

In the last few years despite the criticisms which Members of Congress have addressed to the Defense Department, the percentage of advertised competitive bids has decreased rather than increased. So that the more the Congress criticizes the Defense Department on this matter of negotiated contracts, the more the Defense Department disregards the advice and criticism.

So, we have a basis of fact in this matter and we want to thank you for your interest and concern and we welcome your testimony.

Mr. Whitten.

STATEMENT OF HON. JAMIE L. WHITTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. WHITTEN. Thank you, Mr. Chairman.

I did accept your invitation at some inconvenience in that we are having defense hearings now and I am on that subcommittee.

I appreciate the invitation and I accepted it because through the years there have been so many things that have disturbed me, that I have been able to get so little attention to, notwithstanding the fact that I have filed minority reports and have spoken numerous times on the floor of the House.

Like many other things, while I can point to some success, I think they have handled my views very smartly in that they like to give them the silent treatment, which, as you know, is a pretty effective way to get around these things.

Mr. Chairman, I was requested to supply printed copies of my statement. Anyone who tangles with national defense expenditures has to be rather careful not to be misunderstood.

For that reason, I worked rather hard in trying to cover this matter rather fully in such a way that my points could not be lifted out of context.

I will be glad to follow the prepared statement, or, if it is your pleasure, I shall be glad to talk off the cuff and give some of the points which in turn led me to the conclusions which are spelled out in a little more detail in the prepared text.

I am at your pleasure.

The CHAIRMAN. I would suggest if it is satisfactory with you, that you file the statement and then talk off the cuff with the privilege of revising your remarks, of course, for the record.

Mr. WHITTEN. Could I ask that the statement be carried in the record if possible, and if there is any additional information that the committee should want added, we can do it that way.

I worked rather hard and I would rather have this in print if I could have it that way.

The CHAIRMAN. It will be printed at this point in the record.

(The formal statement of Mr. Whitten follows:)

TESTIMONY OF CONGRESSMAN JAMIE L. WHITTEN, OF MISSISSIPPI, BEFORE THE JOINT ECONOMIC COMMITTEE, ON THE "IMPACT OF THE GOVERNMENT'S SUPPLY AND SERVICE PROGRAMS ON THE NATIONAL ECONOMY" JANUARY 20, 1960

Mr. Chairman and members of the committee, I appreciate your invitation to appear before this committee to discuss with you many of the problems, as I see them, connected with military spending and its impact upon the Nation.

First, may I say, it seems that the overwhelming majority of our top military leaders agree that the present competitive, or cold war, involvement with Russia could well last 25 years. That does not mean, of course, that we can feel safe for that or any other period. It does mean that we must meet our day to day, month to month, year to year defense problems—but in such manner that we can remain strong for that period. If we don't, we could well lose out because our economy cracks up first.

This fact makes it imperative, in my opinion, that we eliminate the waste in military spending, that we eliminate the billions we are spending in the name of defense but for which we get no real defense.

We must place the maintenance of a strong domestic economy along beside frontline military striking power as an equal part of our defense capability.

In presenting the views I present here to the Appropriations Committee and to the House of Representatives, I have frequently said that I believed I was

more fearful of the Russian threat than any one I know. First, because she is causing us to destroy ourselves, and secondly, Russia is developing too much for us to exhaust ourselves as though we were running a 100-yard dash.

Mr. Chairman, for the record, I have been a member of the Appropriations Committee of the House of Representatives for about 17 years. During World War II I was a member of the Subcommittee for Naval Appropriations in the House of Representatives. For the past 6 years I have been a member of the Subcommittee for Defense Appropriations, and also a member of the Subcommittee for Military Construction Appropriations since it was created. In these various capacities, I have spent months hearing testimony, asking questions, obtaining inspections and investigations, leading to a rather firm belief that we do not have too much defense. Doubtless we would never have too much.

However, it is my belief we have far too much spending for the defense we have. I am convinced defense is only one of the factors that enter into our determinations for defense spending, the others are pump priming, spreading the immediate benefits of defense spending, taking care of all services, giving all defense contractors a fair share, spreading the military bases to include all sections, et cetera. Such a course, if I see the matter right, leads to waste, to inflation, and to a dangerous public and congressional attitude. It would be well, if you have not done so, for you to read the investigators' report of procurement practices, which I insisted upon—Appropriations Committee hearings of 1956, vol. I, pages 9 to 98. The wasteful practices shown there are startling. Very little has been done to eliminate most of what is shown.

Because so many factors, vested interests, pump priming, and other considerations have crept into the field of defense spending, it is next to impossible to get anyone to look at the matter objectively.

A few years ago a relatively unknown U.S. Senator became Vice President then President, largely by virtue of investigations of military waste.

Today, however, we find that defense is largely measured by the level of spending. The Rockefeller report, the Galther report, and practically all others stress "we must increase the level of spending."

Today we don't find any of those mentioned for the Presidency in either party stressing the wasteful defense spending, but rather the higher level of defense spending which he will either bring about or continue.

All, in their public expressions, seem to ignore or, in my opinion, at least fail to stress that a solvent, strong, inflation-free national economy behind our front-line military is an equal or perhaps an even greater part of our overall defense strength than the front line military.

It is not that these men are not able, strong and possessed of integrity. Rather it is because they are experts in judging public opinion. No longer is it politically popular to scale down, even if we don't need the particular production, if thereby we affect adversely immediate employment in a particular area, or stir up a particular military service, or stir up a large segment of the financial giants in the nation.

What frightens me is that I believe these potential candidates have judged public opinion correctly, and therein lies our greatest danger. When the American people are more interested in turning the wheels, leading more and more to paper money, with less and less attention to maintaining a strong economy to support our military, I believe it high time to stop, look, listen, and act.

At the same time, I have confidence in the American people; and I firmly believe that if even one of those mentioned for the Presidency set out to show the American people the wasteful way in which their money is being spent, if he got the facts over to the American people, I believe the people are sound enough to make that man President. I know such a man would render a great service to the future security of our Nation, whether he won or lost.

Let us see what leads me to this belief that we reach for that which offers immediate spending.

MILITARY STRESSES POSSIBILITIES

Last year, for instance, notwithstanding a budget in excess of \$40 billion for the Defense Department, a great deal of our committee's time was taken up with the things the military desired over and above those included in the budget. Significant was the fact that each of these proponents of increased spending above the budget based their desires on the fact that Russia could have this, that and the other. Doubtless Russia could have a number of them, but all agreed Russia could not have half the could haves.

All the way through the hearings the pitch to our committee was on that basis. You would perhaps be interested in reading the discussions I had along that line on pages 870 to 884, part 1, of last year's hearings.

DEFENSE SPENDING AND BUSINESS

You will doubtless recall the story carried in newspapers a few months ago, based on hearings of the Armed Services Committee, about 18 high ranking officers of the Defense Department being entertained by the Martin Co. at the company's expense, totalling quite a number of thousands of dollars. Significantly the Martin Co. is the company which has had the contracts, amounting to many millions of dollars, for development of the Mace missile. Last year the question before our committee was whether the Congress would go along with procurement of such missiles from the Martin Co. at a cost of hundreds of millions of dollars, before the Mace missile had been proven. I happened to vote against such a procedure; but it would be hard to determine how much influence on the Department's off-the-record support for this procurement these visits by top military officers as the guests of Martin Co. may have had. According to the press, the Martin Co. tried to charge off the thousands of dollars spent on this entertaining as a necessary expense of procurement of contract. It is said Internal Revenue turned the request down.

However, this year the Secretary of Defense stated that unless the item was identified, so far as he knew this increased expenditure might in turn be used as a part of the cost which would result in increased profits in the overall charge by the Martin Co. to the Government.

Significantly, the Department of Defense testified it has regulations prohibiting procurement officers from accepting such entertainment, but nothing to cover these higher officers, who determine whether to recommend spending. Discussion of that subject can be found on pages 92 to 111, part 1, this year's hearings.

It is to be noted that most of the top people in our Defense Department came from big business. Defense is a big job and it requires people with big experience. However, in response to request made by our subcommittee last year, the Department has this year submitted a list of retired military personnel who are now employed by contractors doing contracting with the Defense Department. That list covers 18 pages and would be found on pages 75 to 93, part 1, of our hearings of this year. Thus we have the situation of top people in the Department being big business and those companies doing huge contracting business with the Department having large numbers of retired military personnel working for them. This makes it hard to determine just what is what, or rather who is who. When we study the matter further we see that there is no State in the Union, and hardly a district in a State which doesn't have defense spending, contracting, or a Defense Establishment. We see the effect in public and congressional insistence on continuing contracts, or operating military bases, though the need has expired.

MILITARY ESTABLISHMENTS

I am on the Subcommittee on Military Construction, which is headed by the member from California, Mr. Sheppard, a very valuable Member of Congress. In our subcommittee room we have a huge map on which military installations in the United States are identified by a pin. If you will look, the map is virtually covered with such pins; and in some areas, in spite of the large map, some pins have to be stuck in the ocean since there was not room in the map of the State. At that, this map makes no effort to show the plants and factories and personnel engaged in producing various things purchased for the use of the military. You might take a look sometime.

Then we turn and study Japan and Germany prior to the last World Wars and see that the eventual course of events followed a period in which big business and the military joined together to run the country. There, as we all agree, the government was controlled by leaders who were for aggression. Fortunately we do not have that situation here. However, there the people opposed to the leaders because of the involvement of military spending in the domestic economy were unable to muster enough strength to hold such leaders back.

We, in this country, have such an involvement of military spending in our domestic economy that it is politically risky to even talk of cutting back defense spending, even if it be waste we are cutting out. Little thought seems to be

given to the overall strength or soundness of our economy in the years ahead, which I think is one of the major necessities if we should have war. Most military witnesses seem to want what they want without reference to the economy, which they say is not their particular assignment.

This year, for instance, the Secretary of Navy in his opening statement to our committee voluntarily stated that responsible budgetary officials in the Naval service throughout the Navy said they needed something over \$19 billion in appropriations for the coming year, that in the budgeting processes this had been scaled back to about \$12 billion, approximately the amount we have this year. That would mean a 60 percent increase. In support of their need for at least the full budget amount, it was pointed out that prices paid for material by the Navy had increased 7 percent each of the last several years. Anyone who takes just a few moments to figure would realize that if we continue a 7 percent increase each year, which in effect means 7 percent further inflation each year, for about 20 years our money would not be worth anything; and all know that our economy would crack up.

By the same token, if the President's Bureau of the Budget and the Congress had gone along with the desire, as the Secretary of the Navy described it, "of responsible budget officers of the Navy" and should grant the 60-percent increase which naval personnel would like to have over last year's funds or this year's budget, if that same course were followed with regard to the other defense and foreign aid programs, there wouldn't be any money left to run the country. If you are interested, you will find this discussion in the next volume of our subcommittee hearings, which should be released within the next week or 10 days.

AIR FORCE ACADEMY

Most of you will recall the building of the Air Force Academy, where the Air Force paid no attention to the congressional limits on money to be spent, or to the Comptroller General's finding that much spending was illegal, but spent what they wanted to in order to get what they wanted.

Now they are training fine Air Force officers there, I'm sure; but please realize those young men being trained there under "hot house conditions" in that rarified financial atmosphere will likely be passing on the spending of half the national income within 10 years.

Do you suppose such a record of expenditures tends to cause them to have much awareness of the need for a strong national economy or really to give any thought to it?

I would point out that our announcement to the world, which I think very foolish, that the United States will never strike the first blow means that Russia, by opening the Iron Curtain slightly to show one sample, or one prototype, or by dropping misleading claims for our intelligence to pick up could bleed us white without spending much money themselves.

This very real possibility is extremely dangerous to us, unless we keep conscious of maintaining a sound economy, of protecting it. If we go overboard every time Russia makes a claim, or makes a little show, Russia could win without striking a blow by making us destroy ourselves.

Illustrative of this was "May Day" a few years ago, when Russia showed a big bomber. Immediately our people said they had 12, with hundreds more coming off the lines. The Budget Bureau was accused of letting our defense down; Secretary Wilson came before Congress for \$450 million extra for our B-52 bomber, I believe it was.

Now it is agreed Russia never had them; and our B-52 has gone the way of the horse and buggy.

Perhaps I can best cite to you these numerous examples of what goes on with the military by quoting to you from a speech I made on the floor of the House, January 23, 1957, in connection with a Defense Appropriation bill from my committee. This speech was off the cuff but from the heart, and I quote:

"Mr. Chairman, I have served on this committee for a number of years. I have listened to the testimony of witnesses from the various departments in our Defense Establishment. As some of you may recall, trying to learn as much as I could I went to Russia in 1950, spending my time with our own people from our own Embassy and traveling over the country. I have made every effort to make myself as well informed as possible, but with all of that effort I am not prepared to say just how great the Russian threat is. I simply do not know. My speech here today is not to minimize in the least the dangers of Russia and

Russian aggression; but it is to speak a word of caution, that we do not let our fear of Russia make us destroy ourselves at home.

"First, may I say to you, it is in the record of these hearings that the successful flight of the satellite was not unexpected to the United States. The surprise lay in the fact that it was a number of weeks, or a few months, earlier than might have been anticipated. I think the record is clear that prior to the satellite's launching the military people in our Government made the determination to devote most of our energies and attention to the missile program, and the prime endeavor was toward getting the missile to come down at the proper place without disintegrating. In other words, decisions were made with full knowledge of the likelihood of the successful Russian satellite.

"I think, looking back, that our folks now realize we may have underestimated the psychological benefits the Russians might get throughout the world in successfully launching the satellite. Be that as it may, that has passed. The tragedy, as I see it, and the danger, as I see it, second only, if second at all, to the Russian threat, is what we are doing to ourselves because of Russia. We are judging our defense not by the wisdom with which we spend. We are judging our defense by how much money we appropriate and how much money we spend, as well as by how large a backlog of orders we give certain corporations in certain States.

"I returned here in December 1957, right after the satellite had been successfully launched by the Russians; and one of the first things to meet my eye was an article in the Christian Science Monitor, which everybody knows is a stable and conservative newspaper. It was said in that article that in view of the slight downturn in business the Government was going to pump prime by putting out more defense contracts. Now, is that a way to make a determination as to how to meet the Russian threat? Is promoting business what we use as the determining factor?

"I turn to the U.S. News & World Reports and see the headline 'Big Spending, Life for Business.' In the next issue: 'The New Congress, Pump Priming.' And in another issue it says: '\$2.5 Billion for Missiles, More to Come. Who Gets It?' Then it lists the companies which will profit by such spending.

"You will recall that last year I pointed out the Defense Department spent \$50 billion with 10 corporations in 5 years, and their stocks increased in value from an average of \$58 per share to \$149 per share in that period.

"We had a candidate for national office insist as one reason to support him and his party that if he and his party were elected, contracts would be given to American Motors so it would not go under; and may I say if we are spending the pie, American Motors is entitled to its share. But what a way to run a railroad.

"It is serious when we use defense as a means to pump prime, no matter whose district it may be in. It is putting our economy on a shaky basis, and it seriously weakens our chances of meeting a real war. May I say with all the sincerity of my heart, we are a greater threat to ourselves because of the fear of Russia than Russia is to us.

"If this thing is as serious as it is said to be, let us start looking to how much defense we are getting for the dollar instead of judging defense by how many dollars you give the Department for a home for the Chairman of the Joint Chiefs of Staff, or to increase the grade of all civilians on an average of two grades in the last 2 years.

"Yes, it is time that we put the interest of the United States first; and the first place to do that is here at home, so that we get some defense for the dollar. If every time you see a new wrinkle on the Soviet sun you want more spending, more money, instead of thinking about how you might shift what you are already spending it for. You are going about it the wrong way. We are making our dollar cheaper and cheaper, to the point that our folks lose confidence in it.

"I would like to remind you that 2 years ago, that great leader and fine Member, the head of the Armed Services Committee, in presenting the military public works bill which amounts to about a billion dollars every year, mostly spread over the country, told us in the House, "My friends, there is something in this bill for every Member." And sure enough, when you read the requests for military construction, they had them listed by States so you could see every Member had a monetary interest in passage.

"Under this full funding, that my friends believe in so much, every time you try to cut any of them out, Mr. Chairman, I get calls saying, 'Did you know that is in my district?' I had them in the last few days. No; I am kind of walking

alone. I cannot work my side of the street. I do not even have anybody on my side of the street to work with.

"But I plead with you to think about it. It is high time we begin to look after keeping a sound and secure country and getting a dollar's worth of defense for every dollar spent.

"Again, as I told you last year, in the Air Force they had so much money they set up a group of officers and men to try to see how much money they did have in how many different accounts. This is a matter of record. They called it 'Operation Smokeout.' Then, when they did find out how much money they had that they did not know they had, they recovered it to their own use and called it recoupment.

"I have not been able to bring this up to date; but last year at the time this bill was up, they had already recovered from themselves in excess of \$1,300 million which until 'Operation Smokeout' they did not know they had so far as use was concerned.

"To put it in a nutshell, Mr. Chairman, because we have Federal spending tied in with 'pump priming' and tied in with our domestic economy, we look at how much money we appropriate and tell the people, 'We are safe because we are spending the money, even increasing it.' Certain Democrats are saying in the press, 'Why, we are going to look after you and that is why we ought to have a Democratic President, because we will spend \$2 or \$3 billion more for defense,' as though that in and of itself would provide safety. And the Republicans top that here today by saying that they would already have been spending more money except for the Democrats. The Republicans are saying 'Congress cut out essential money last year.' That is incorrect but it shows what the country is up against from some party leaders in both parties. * * *

"It so happens I agree with Mr. Wilson that the soundness of our economy is a major part of our defense. I joined with him in most of the things he did. I hope that I may have expressed myself a little less brusquely than was his custom sometimes. However, I want it understood that I admire his courage because he had an awareness of the necessity of starting to get things done at home.

"But let us get down to my main worry. As a retired admiral expressed it to me: Here is the way you are handling your defense—because we know the Russians have a good football team, we are trying to surround the perimeter of the football field with good football players; and the primary reason for that is that everybody gets a cut out of the salaries of such extra football players, labor, industry, and congressional districts.

"In the process, we have our economy and our domestic programs caught in defense spending; and if you know your history, such a situation contributed greatly to leading Germany into two world wars and Japan into one. I hope that we are smarter than they are. But, it appears to me we are on the road and perhaps running a little faster at this stage of the game than they were. We need defense, but we must judge our defense by the wisdom with which we spend rather than how much we spend.

"I repeat, if the danger from Russia is as great as many believe, we had better put first things first; and above all we must make our defense decisions on defense needs rather than on a pump priming basis."

SIZE OF DEFENSE PROGRAM

In order to get some idea of size and cost of the defense program, I present a few statistics.

Funds available to the Defense Department for military services each year since 1951 are:

	Billion		Billion
1951.....	\$50.7	1957.....	36.2
1952.....	60.1	1958.....	36.1
1953.....	48.6	1959.....	41.2
1954.....	34.4	1960 (estimate).....	40.6
1955.....	28.8	1961 (estimate).....	40.6
1956.....	31.9		

In addition, large sums are authorized each year for international security programs, closely related to our defense effort.

Another indication of the size of this program is the number of persons engaged in its various activities. In June 1950, the Defense Department alone had 1,460,000 military and 753,000 civilian personnel. By June 1959, this figure was 2,500,000 military and 1,078,000 civilians, a total of nearly 3,600,000. In addition, nearly 40,000 people are engaged in those activities which directly support the Defense Department, including the ICA, Civil and Defense Mobilization, Atomic Energy Commission, Selective Service System and National Aeronautics and Space Administration. The total number of people engaged directly in the defense program of the Federal Government represents over 2 percent of our total population.

Nearly 57 percent of estimated expenditures in 1961 is going directly to the security effort. And this does not include the \$5.5 billion for the veterans programs or any part of the \$0.6 billion of interest on the national debt, both of which are largely due to our national security programs.

A SERIOUS EFFECT—INFLATION

Of course, the most serious immediate result of a heavy expenditure in the name of defense, such as we now have, is inflation.

Many seem to believe that we can expend 20 percent of our energies for national defense and not only have the same amount left but actually have more—make a profit, so to speak. It can't be done, but in order to lead people to believe it is being done we have to a large extent supported our military spending by inflation.

Theoretically, such inflation can be avoided by properly financing the costs through taxation and other revenue-producing means. Actually, however, for the last 10 or 15 years this Government has not raised anything like the amount of money that it has spent. Throughout the last war and up until this date it is estimated the Government collected in taxes only about \$1 of each \$2 it has spent. The other dollar was raised by issuing bonds, which became the basis for printing more money. With all the so-called prosperity which we feel we have enjoyed for the past 8 or 10 years we have been paying only about 50 percent of our bills, having now a debt of approximately \$200 billion.

The Government has been doing what some individuals have tried to do. It has found it can pay debts by issuing notes. The Government has learned to take those notes from one bank or buyer to another, and like the individual the longer we continue this situation the worse off we become. At one time we realized we could not carry on this kind of thing indefinitely; but now few people seem to want to stop. The greatest optimist of today is someone who foresees a balanced budget for 1 year.

This practice has resulted in an inflationary situation which has become increasingly serious each year, with the result that our price levels have continued to climb. Using 1947-49 as a base, consumers' prices have increased since 1939, as follows:

	<i>Percent</i>
1939-----	59.4
1950-----	102.8
1959 (November)-----	125.6

We have a great number of people in this country who are retired, disabled, dependent on insurance or fixed salary and who are helpless against inflation. Many are under Social Security. Others are dependent on old-age pensions. Reserves that have been built up to the credit of these programs on the books of the Nation are fixed in terms of dollars as of the day they are paid in. But the dollar gets cheaper and cheaper, and thus the fund gets smaller and smaller in comparison with what you have to pay to provide real security.

When an individual can pay a dollar debt with a 75-cent dollar years later, and a 50-cent dollar if he waits still longer, it can become habit forming. It can wreck havoc once it gets to the point where no one has any confidence in the dollar.

I was in China during the war when that Government quit printing 10-dollar bills because it cost more to print them than the 10-dollar bill would buy. At that time it cost about \$1.500 a day to hire a man to do a day's work. The person hired with this \$1.500, however, could hardly buy enough to eat. Needless to say the Government of that country fell.

France followed this inflationary course and, frankly, could not have protected itself for a week without help. De Gaulle had to be recalled.

Our people in the United States are already becoming disturbed about the present and future value of our money. Our people are getting fearful of the American dollar. Look around you. Farm income has been so low as to change the picture, but for years many lawyers, doctors and professional men bought farms, and even now keep the price of farmland far above its earning ability. Many businessmen have gone out from the cities and bought land, not because the farm will bring a fair rate of return on the investment, but because they want something firm, something they can pick up in their hands, something they can see. It has been the history of every country. When leading citizens of other nations became fearful, passed up productive investment for a hedge against inflation, when a large percentage started dodging the tax collector, it inevitably resulted in a crackup of the economy of these nations. Can this country be an exception?

EFFECT ON INDIVIDUAL INITIATIVE

Probably our greatest long-range danger is in the effect such national policies will have upon the initiative and energy of our people, young and old. Why should a person work and save if what he has is to be taken away by inflation. It is apparent that more and more people want the Government to take care of everything. Instead of relying on himself the individual is tending to rely more and more on a labor union, on the company that employes him, on a farmer's cooperative, on a trade association or a professional society, and on his government.

EFFECT ON PRIVATE BUSINESS

When the Government builds a plant for some companies, as it did a few years ago, to that extent they are setting up competition in that field, not only in wartime but thereafter. When you give special tax amortization to some companies in order to get them to increase their production, you not only favor such companies but actually you may end up with a reduced production as against that which you intended.

A few years ago I studied this problem in connection with the manufacture of nitrogenous fertilizer. The products that go into nitrogenous fertilizer are products which in time of war are greatly in demand to meet military needs. They also are products which have other large uses as chemicals, so frequently the prices for the chemicals in other chemical processes exceed their value as fertilizer. Then such chemicals go into such uses. These facts, together with the increased production need from agriculture during the war caused the Government to determine that there should be an increase in the amount of nitrate fertilizer. The Government set as a goal an increase, I believe, of 500,000 tons of nitrate products a year. The companies which had been in this field were asked to subscribe to such increase; and the increase was oversubscribed by more than 100 percent.

Tax amortization certificates were issued to the first companies to sign up. The increased production was made or in the process of being made. But there were more companies which wished to produce nitrate fertilizers, fully a hundred percent more than that which was permitted under the goal set. As a result many companies were left out.

You may ask, "Why don't those companies go ahead and expand on their own?" If they do, they have to compete with these other companies which have gotten tax relief and will be able to amortize their increased plant expansion within 5 years, whereas those who expand on their own without such tax amortization will not be able to compete with them on an equal basis for 5 years.

It was admitted by the head of the Defense Production Administration that through this means they not only had the authority to determine which companies got the tax amortization, but he readily could see that in their efforts to get increased production, in effect, for a given period of time, it could be that their actions which helped on a temporary basis, might actually serve to reduce the supplies that might have otherwise been made available if business itself had moved into the field. Not only that, but the Government in this kind of operation actually decides whether the manufacturers in a given field will have competition.

In the case of aluminum the Government determined increased amounts were needed. And the Government then, believing there should be competition in this field, granted permits and tax amortization to new companies, thereby giving

competition to the Aluminum Co. of America and to the Reynolds Metal Co., which had almost a virtual monopoly in the field. Perhaps that is good. However, as a lawyer, I have always understood you are limited to breaking up monopoly by court order and not by competition.

Thus it is under the guise of national defense we have seen the Government moving more and more into the field of determining who can go and who can stay in business.

DISLOCATION OF INDUSTRY

Another serious result of a large defense spending is the dislocation of the normal operation of industry and disruption of the normal channels of trade. Military contracts involving large sums of money, extensive quantities of manpower and materials and frequently a large portion of the Nation's supply of a particular item invariably upset the normal distribution of business among the various areas of the country and disturb the balance between large corporations and small business.

Awarding business in such large quantities usually limits normal competition among bidders. Use of cost-plus-fixed-fee contracts on a negotiated basis, which we continue in nearly all cases, whatever you may be told, has proved to be a very costly and disrupting method of doing business.

Other serious economic and social problems frequently result from this dislocation of industry, including manpower shortages in one area and unemployment in another. Shortages of housing, schools, and community facilities also have developed in certain war impacted areas, with very serious consequences.

The shortage of defense contracts in New England and several other parts of the country created a serious problem. Unemployment and unemployment payments increased in those areas. This was particularly true in the State of Rhode Island where the principal industry there was watchmaking, for which very few defense dollars have been spent at the present time. This same condition has existed in many other areas where the special items produced are not in demand for military purposes.

Another problem of industry which results from large military contracts results from the tendency to award an increasingly larger percentage of such contracts to the larger industrial concerns. Our experience has been that during periods of large military expenditures, the smaller companies throughout the country are starved out. It is only natural for the contracting officials of the Military Establishment to give preference to the larger organizations, since production of many military items requires special skills and equipment not possessed by smaller concerns. Frequently large amounts of capital required for large scale production of military ordnance are required to establish the plant and facilities. Also, the matter of deadlines and speed in production gives an advantage to the larger producer. So this complaint is not in criticism of any one. It is merely recognition of one of the less desirable effects of the defense effort.

EFFECT ON AGRICULTURE AND NATURAL RESOURCES

During the war we called on American agriculture to "feed the world." Never has a group responded to a greater extent. Short of labor, machinery, and fertilizer the farmer increased his production. It was increased by more than 25 percent. Then with the war over, though there was a need to help feed foreign countries until they got on their feet, with his plant expanded, accustomed to huge demands for his products, we find American agriculture the whipping boy of the press and of many of the people.

We have tried to meet the problem with foreign aid. The records show that not only have we been supplying the money to foreign countries through mutual security and, in turn, selling commodities back for it, but we have provided capital for foreign countries to go into business, setting up competition for ourselves—much of it by American companies abroad.

According to the testimony of the Secretary of the Treasury before our committee last week, we have exported through the various aid programs \$50 billion in capital. We are feeling it in the movement of our gold reserves. With that much of our capital exported, you can easily see that competition of borrowers for capital remaining is resulting in constantly increasing interest rates.

A few years ago one of the most conservative Members of the Congress, one of those who has participated in practically every move to reduce national expenses—sometimes to the extent that even I felt he was being shortsighted—

came to me and said he certainly regretted to see me vote to cut foreign aid, because as he said, "I don't know whether you ever noticed it but I have always supported the mutual security program, largely because we were selling these commodities to the mutual security countries for that money."

Thus it is, a \$8 billion foreign aid program obtained a vote in that instance because to some extent commodities from his area were being sold for the funds which were being granted to the countries. It would be much cheaper and far less inflationary if we gave away the commodities instead of giving them the money to buy such commodities.

DEPLETION OF OUR NATURAL RESOURCES

We had in this country about 150 years ago 8,000 million board feet of timber. Today we have about 1,600 million board feet.

One hundred and seventy-five years ago we had 8,000 million tons of iron ore. Today it is down to 62 percent of what we originally had.

Only 175 years ago we had in this Nation 500 million acres of fertile soil. We have wasted 200 million acres of that land and there is another 100 million that is washing away today.

By 1975, according to the present rate of increase in population, we will have a population, not of 150 million but 190 million.

When you appropriate money for foreign-aid programs the money comes back here for the purchase of commodities. Since we get the money, they get the goods. We thus have no goods to offset the expenditures, and the resulting inflation is apparent. The money that we have let foreign countries have is a part of the national debt.

It is a problem as to how we are going to handle this great public debt. What we have really done, however, is to deplete our supply of iron ore, our oil reserve, our timber, our soil fertility. About 95 percent of the basic raw materials that are used in industry come from the farm, and the other 35 percent almost without exception depletes our iron ore and the other basic natural resources we have in this country. Many people don't seem to worry about that fact.

The president of the Standard Oil Co., in an article carried in the Atlantic Monthly and quoted by the Reader's Digest, said:

"We make a mistake to think of natural resources as so many stacks of raw material piled up in a storehouse. The fact seems to be that the first storehouse in which man found himself was only one of a series. As he used up what was piled in that first room he found he could fashion a key to open a door to a larger room. And as he used the contents of this larger room he discovered there was another room beyond, larger still.

"It is conceivable that the entire globe, earth, ocean and air, represents raw material for mankind to utilize with more and more ingenuity and skill. The stone age lasted several hundred thousand years. The copper and bronze age 400 hundred years. In modern times the age of iron has given way to the steel age. Steel was first made in commercial quantities 95 years ago * * * ."

Sounds nice doesn't it? But China exhausted her natural resources, and she is still without—so it is with India and nearly every wornout country we are aiding today.

WHAT CAN WE DO?

What can we do? I don't know that there is any easy answer. I rather think we would make a mistake trying to cut back to 15, 20, or 30 years ago. I believe the best we can hope for and that which is best for us is to try to seek a period of stability. In other words, don't try to turn back but try to level off, and transfer our wasteful defense spending to developing our Nation at home, where we get value for the dollar spent.

Let us hold defense spending to real defense. Let us realize that surplus to defense needs spending could be better spent almost anywhere else.

I think the first step is a balanced budget. With a balanced budget we can measure benefit against cost. Let us realize that all can't make a living and all accumulate stocks, bonds and notes unless somebody else owes them. What we are accumulating is the Government's promises to pay. While we may hold our fair share of money and bonds, our name is signed to the notes and bonds that everyone else holds.

In the period of adjustment, let us have real soil conservation in the great watersheds of our Nation, and stop the thousands and thousands of little floods which periodically give us something like the great Kansas-Missouri flood which

did \$2 billion worth of damage. Let us spend our money for roads and schools and hospitals and similar works.

That would be much better than pump priming under the name of defense. Let us realize that security comes from within, and that credit on the books of the Nation which owes \$200 billions of dollars merely means we are dependent upon the future earning powers of our own country.

DOMESTIC PUBLIC WORKS BILL

In the last session of Congress the President vetoed the public works appropriation bill because we could not afford, he said, the future costs of these domestic public improvements in view of other governmental expenditures. Congress failed to override his veto. When I could get no one else to do so, I offered the motion to send the bill back to the President with the new starts included.

After a bitter fight in the Appropriations Committee, my motion carried 10 to 17. It swept by the House and Senate. Then when the President vetoed the bill the second time, we overrode his veto. This is the first time this ever happened in history. I am proud of my part in that action. However, I am even more happy that the overwhelming majority of the Congress approved my argument, which I repeat here:

"Mr. Chairman, as a member of the Committee on Appropriations, I offered this motion to reduce each item 2½ percent and to retain the 67 new projects, after it became apparent that it would not be offered otherwise. I am not a member of the Public Works Subcommittee. I have no projects in this bill, present, past or future. I offered that motion because I think, and I thought then, that it is high time we took care of our own country.

"If the President and a majority of the Congress are going to have a foreign aid program of billions of dollars annually; if we are going to raise travel allowances for Federal employees, Federal pay; if we are going to increase benefits to veterans, and provide more inflated dollars to almost everything, if we are going to have all these other things, if we continue using appropriations to put money in the hands of people and thereby increase the national debt, I think that we owe it to our future and to our children to protect our own country, its soil and its natural resources. The President's veto would have us do all these other things at the expense of our own country.

"These facts are argument, not against domestic public works but for them. May I say to you that the argument made as to how much we owe, and about the deficit, and all of that, is the strongest argument for giving attention to our own country that I can bring you. May I tell you that the strength of the dollars that we have, the ability to pay debts that we owe, for whatever it is worth, is dependent upon the country that stands behind it.

"While I could say many fine things about the chairman of my committee and the ranking Republican member, and we can all second-guess the other fellow, but if I were running the Appropriations Committee, in the capacity of either one of them, the first bill on this floor each and every year would be public works. It is not bacon, not pork, but I would protect the base from which all these other things must be supported.

"Mr. Chairman, money spent improving the Nation, preventing floods that cause damage of hundreds of millions of dollars, and preventing drought damage, improving harbors, is sound. Yes, I would look out for my country first, recognizing that it is the basis for everything. Then after we have looked after the factory and the home, I would see what else we were able to do * * *"

I am glad I won out in that fight; I am glad the President's budget this year yielded on this issue.

We must have a strong defense. To have a strong defense we must see we get a dollar's value for a dollar spent. We must realize that for the defense to be strong, the economy must be strong—and that means we must cut out waste, cut out expenditures in the name of defense which provide no real defense, but which provide built-in inflation. We must keep developing our country at home, we must not let the Nation run down.

Gentlemen, I have stressed this phase of our problem as strongly as I know how, realizing that with my hundred percent effort, I can't hope to obtain over 10 percent effectiveness.

Thank you for your invitation to present this side of our problem.

Mr. WHITTEN. Mr. Chairman, I have served on the Appropriations Committee about 17 years. During World War II, I was on the committee that handled naval appropriations. In the last 6 years I have been on the appropriations for national defense. I was instrumental in causing the House committee to set up a new Subcommittee on Military Construction, my belief being that if we could hold down construction to something that was essential and necessary that that was a starting point to perhaps save lots of operating money.

I am glad to say that the first year we were able to cut about \$500 million off on the House side, which I think helped the Defense Establishment rather than hurt it.

I do think it was a step in the right direction.

DEFENSE SPENDING USED FOR PUMP PRIMING

Mr. Chairman, it is my belief that we do not have too much defense, I do not think you could have too much defense, but I am equally as much convinced that about 50 percent of what we call defense expensing has no more relation to defense than anything.

It is a case of pump priming, distributing contracts, treating every service equal to another service.

We have spread establishments all over the United States. There is not a State that does not have any of the actual military establishments and very few districts that do not.

Not only that, but in practically every section they are involved in manufacturing those things which in turn are used by the Defense Establishment.

Now, let us think a little bit about the economy of the situation. We must have the defense necessary for our country, but other than the defense benefits, the protection, a dollar spent for those things that are necessary for defense means that it is not spent for domestic goods.

It means that you have no domestic goods to offset the expenditure of the money.

So defense spending in its very nature is inflationary in that there are no usable goods for the public to offset the expenditures that you make.

Do not misunderstand me. We must have sufficient defense, but defense spending is the poorest possible place to pump prime in that you do not get any goods for the population to offset your expenditures.

Yet we have been using defense in my opinion almost 50 percent in that direction in the last 7 or 8 years.

I would like to express my views in a nutshell and may I go back a little bit.

I demanded the investigation of military policies, contracting, and insisted that we quit investigating procurement policy, but investigate procurement practices.

That finding, which you will find in our hearings of 1956, and I had a terrific fight to get them printed because the Defense Department stamped secret on it and we had a terrible time.

After I finally got the Secretary of Defense to read it, Mr. Wilson, he said it made him mad and sad to find that he was operating any such department.

That is a matter of record.

Now, in that investigation it develops that while on the face of it we have many contracts awarded on a competitive basis, when you get one particular company, give one particular company the development contract for a new weapon in its very nature you are not giving much chance for anybody else to compete in a bid.

When you draw your detailed description of what it is you want in such a way as to fit one company and fit nobody else, you can advertise until you are blue in the face and it will not do much to bring about competition.

Now, let me say again that when these Defense witnesses kept saying Russia has this and Russia has that and you ask them why and they could not say, in 1956 I went to Russia. I had observed a good friend of mine in your body get kind of dragged around because somebody in the press said he had been sold a bill of goods.

So I tried to hedge. I told our folks I do not want to see a single top level Communist. I want to be with our representatives the whole time I am there. I want to go by automobile and train and I want to stop where I want to, and I want one of our top Americans to go with me the whole time.

REPORT ON TRIP TO RUSSIA

When I came back I filed a rather detailed report.

May I say, hedging again, I had our top people who had spent years in Russia working for our Government to go over it for accuracy so that I could not get out on a limb and be sawed off.

When I got back with that report notwithstanding I had the best men on our Appropriations Committee with me and our best men in Russia with me, I could not clear that; I could not get a single magazine, newspaper or somebody else to print it because it was bucking the public interest in continuing spending in my opinion.

Since then the situation has improved to some extent.

That my views may not be misunderstood, may I say in my trip over there the things that you could see, the trains and railroads, the lack of them, the lack of highways and factories, everything I saw was completely opposite to what our folks had led me to believe and I was on the Defense Appropriations Committee here and consider I was supposed to be telling us the facts.

When I came back I took pictures of things they said you could not see. Some of our very top people in our Government said that my report was invaluable and I had 120 pictures of things, many of which they said you could not even see.

Now, by that statement, I do not mean to say I came back believing Russia is not strong, but let us look at that two ways:

If Russia is not as strong as the proponents of our present level of defense spending say, if she is not that strong it is ridiculous to ruin our economy with inflation.

On the other hand, if Russia is as strong as some of our people say she is, we certainly cannot afford to spend ourselves bankrupt and have a weak economy behind our frontline military.

I would just like to point out some things, they are not isolated, but I have many other duties, as we all do, and I have to do the best I can with this, but I would just like to cite to you some of the things

that in my experience on this committee have happened which lead me to believe that real defense needs have become a fairly minor part of our decision.

EXPERIENCE ON THE APPROPRIATIONS COMMITTEE

In my experience on this Appropriations Committee I have had the defense say that they continue to manufacture planes that would not fly so as not to have unemployment.

I have had before me on that committee a request for \$160,000 per plane for the same kind of plane from the same contractor, a continuation of a contract, if you please, where they had asked us for \$160,000 more per plane.

I said, "Now, I cannot go into the files on each of these cases, but will you bring before me the files so that I can see if you attempted to get that plane at the same price."

They stalled around and they finally said it was out at Wright Field, they would have to send for it.

I spent another 10 days and they still did not bring it. I raised the question and then they promised again.

They finally came up and said "Congressman, we are sorry to admit it. We have not tried to get that contract continued on its present level. We just estimated it would cost \$160,000 more per plane."

I said, "Mr. Secretary, do you not know if they see in your budget you have listed this plane for \$160,000 more per plane, that those folks are smart enough to ask for it?"

This investigation of procurement practices, and I insisted on the practice part, as I have said the Defense Department had stamped secret on it.

Not even letting the Appropriations Committee see it. If anybody goes back to read it, it is a startling situation.

Last year, or 2 years ago, the budget approved \$350,000 for a home for the Chairman of the Joint Chiefs of Staff. Hindenburg, or the Prussian generals, never had anything to equal it. It would duplicate about everything you have in the Pentagon.

Luckily, the Congress cut that out.

I am trying to show that we are getting where defense has very little to do with many of these things.

Two years ago the Fairchild Co., for various political reasons, in my opinion, with political help, let us put it, insisted that we buy \$30 million worth of planes from Fairchild so as to keep the plant going.

We had the Air Force before our committee in a private meeting. It developed that the planes that would be manufactured there would have a British type engine and would have to be used in Europe because of the repair situation.

The Air Force admitted that they had sufficient planes; that they were using them, but they would be glad to have these new planes; they would have to find some place to put the planes they had; that they could put them over in military foreign aid; that they felt sure some country would be glad to have them.

Last year we were considering on our committee the abolishing of the curtailment of the Bomarc missile on the basis it would be obsolete before it really got anywhere.

Mr. Chairman, the Boeing Aircraft people who manufacture that, according to my information, took practically half the hotel space in

Washington. I do not say it in criticism. I just say we are in a situation that is highly dangerous.

I do not know why, but anyway, that missile is continued.

I do not know that it is bad to continue it, or that it should have been discontinued, but I am saying that pressures in there was the case of carrying on the contracts.

Last year we had before us the procurement of the Mace missile prior to proving that the Mace missile will work. You have read in the press and doubtless you have had it before your committee, where 18 top-level officers were entertained by the Martin Co. at a cost of some thousands and thousands of dollars.

We had this up in our committee a week or two ago.

The CHAIRMAN. This is the trip to Bermuda?

Mr. WHITTEN. That is right.

Now, that was at the expense of the company which was here attempting to obtain procurement contracts for an unproven missile.

Now, in my questioning last week, the Department said they had prohibitions against procurement officers accepting any such thing, but, apparently, they have nothing to prevent the top level folks who decide on programs which call for the expending of the money, there is nothing in it to prevent them.

According to the press and the Internal Revenue Service, they attempted to charge this off as an expense of getting contracts.

If that in itself does not indicate that this trip was down there, I am not trying to smear these officers as such, but if Martin tried to charge it off as an expense of getting contract, it adds a little bit of thought that Martin not getting them down there would help a little.

Again we need big business in the Defense Department. It is a big thing. We have to have folks with big experience, but we know that we have folks out of the big business coming into the Defense Department.

Then it develops in the testimony this year, following our request last year, there are 18 pages of ex-military people working on those contracts.

The CHAIRMAN. That is the ranks of Army colonel or Navy captain?

Mr. WHITTEN. Or above.

We have military running to a considerable degree the other end of it.

As I expressed in my prepared statement, it is hard to tell what is what and who is who.

Now, proceeding a little further, at the moment we are in a big controversy in the press about whether we have the B-58 or whether we have the B-70. The B-58 is manufactured by Convair.

The B-70 is by North American.

I am making no charge. But as mixed up as these things are, you begin to wonder whether it is more influence that one company has against another company.

Now, we have gotten ourselves tied to them and I am in the fortunate situation, I do not have any defense establishments in my district. It is not a sour grapes because they have not contemplated putting any in there, and I have not asked them to put any in there, but it does make it a little easier for me to see it objectively.

I have seen the Air Force approve putting an airfield in the worst of four locations, it costs more, and less flying time.

Along this line we have reached this point to where my good friend, the chairman of the Armed Services Committee, of the House, 2 years ago on the public works appropriations bill, military, announced to the Congress that there is something in this bill for everybody.

Everybody when you looked at it he had them listed by States so that everybody would know, I had better be careful about this vote.

Listen to this, Mr. Chairman: Last week the Secretary of the Navy testified before our committee that responsible naval budget officers throughout the Navy had estimated they needed \$19 billion for the Navy this year.

That would represent a 60 percent increase.

Now, the budgeting process and the top echelon cut it back to about this year's level, about \$12 billion.

But think of this: If the budget and the Congress had raised them 60 percent and did the same thing for foreign aid and Air Force and Army, there would not be a dime to run the rest of the country.

Now, in that same presentation they said, now we need all we can get because prices are going up 7 percent a year and have been for a number of years.

Well, prices going up 7 percent means 7 percent inflation. It is in logarithm, I guess it would be, but it takes a fellow with just a little arithmetic knowledge to know that if your inflation hits you at the rate of 7 percent a year in about 20 or 25 years your money will not be worth anything.

The CHAIRMAN. I do not know about the specific items to which these officers were referring, but the truth of the matter is that the wholesale price level is now only approximately 20 percent higher than it was in the period 1947 to 1949.

The general wholesale price index has been comparatively steady in the last 2 years so that the asserted inflation, so far as the general price level is concerned, has not occurred.

Now, it is true that there has been a great increase in the price of manufactured goods and a decrease in the price of farm products.

But the evidence that we have been developing these last few months is that the increase in prices has been greatly exaggerated.

Mr. WHITTEN. Well, be that as it may, that was his testimony and, of course, he was discussing the expenditures by the Defense Department and behind that may be lax contracting, failure to get competitive bids, paying too much on cost plus.

May I go back to this Martin Co. situation where they had these 18 officers. In that case for one reason or another, Congress went along with making a procurement contract, we went along with it, against my vote, may I say, but in connection with my statement earlier that according to the press the Internal Revenue Service refused to allow this as a part of the cost of obtaining the contract. The Secretary agreed that unless this particular expenditure was identified that it could easily be under their contracting procedures counted as part of the cost which in turn would lead to a larger profit to this company.

May I say I have pretty much written you a book already and I could write another book on each page.

I realize that there are a lot of other factors, such as you mention, about the overall price increase and inflation and things of that sort, but, of course, I happen to handle agricultural appropriations on the

House side and I think that the biggest reason you do not have inflation is that every time other things go up, certain folks say, "Well, just take the price out of the raw materials."

So I think the inflation situation would have been much greater if we had not passed it back in the price of the income to the manufacturers of the raw materials.

The CHAIRMAN. We asked the Library of Congress to prepare the table on the proportion which military prime contract sales formed of total company sales. I will ask consent that it be inserted in the appendix.

I will say that the case of the Martin Co., the \$400 million which they had awarded to them in fiscal 1958, formed 99.2 percent of their total business. So that this is a firm which is almost exclusively a military supply firm.

Mr. WHITTEN. This question has always worried me, Mr. Chairman. I used to be a fairly good student of history and within the time that I have I still have an interest in it, but if I understand my history correctly, in Japan and in Germany, this involvement of defense spending with the domestic economy certainly was a contributing factor. There we had leaders who were for aggression.

Fortunately, we do not have it here. But getting your economy tied up to defense spending where everybody is afraid to cut a defense contract because of temporary unemployment there, when we reach that kind of place it becomes more and more serious. I think it was a real factor in those cases.

Here is a question—you know I am more trained at asking questions than answering them, but there is one I would like to submit to the committee here, not to press you for an answer: We had an investigation last year on the number of planes that were stationed at various Air Force bases for the personal convenience of the officers. That means that they did use them on business.

The report shows that they used them for a whole lot of other things. About 75 percent of the trips are listed under the name of proficiency flying. That is a kind of Mother Hubbard expression. But the page in our report by our investigators on behalf of the Congress is stamped secret on the page that lists how many, and where.

So I guess I was having a little fun out of this, but I am going to take the chance and release something I do not have approval to because he did not give me any answer on it so I think I am privy to it.

In that report it shows that we have 27 airplanes at the Air Force Academy in Colorado for the convenience of the professors. Understand, they do not teach flying there. Flying is taught at flying schools.

I asked General White: "General, when you tell the American Congress that it would ruin us if Russia learned that we had 27 planes out there for the convenience of the air instructors out at the Air Force Academy, I am sure you honestly believe it would ruin us, but will you explain to me why it would ruin us with Russia if they did know it?"

I will say this for General White: He did not attempt to justify that, but it is illustrative of how hard it is to get these facts out.

Now, behind all of this thing of getting defense where it is just about half of what we are doing is this: Most all the military people I

know, all the leaders have agreed that our present cold war with Russia could last for 20 or 25 years.

If that be true, we cannot afford to handle this thing like a 100-yard dash.

If Russia does not have it, it is ridiculous for us to upset our economy to the extent that we are.

If Russia does have it, it is dangerous to weaken our economy to the point that we cannot have a strong economy behind our military for the next 20 or 25 years.

DEFENSE MUST BE BACKED UP WITH A STRONG ECONOMY

In other words, it is my belief that defense consists of your frontline military and your strong economy behind it and it is along that line that I would like to point out.

Mr. Chairman, I strongly believe in that fact. Last year when the President vetoed the public works appropriation bill and we were unable to override it in the Congress and he did it after recommending money for foreign aid in the billions, we had raised everything in spite, as I recall it, the statement was made that we could not afford these new starts on public works to protect our own country. Nobody else would do it.

I got up in the Appropriations Committee and offered the motion to send it back after cutting 2½ percent out so as to bring it in line. We had a rather bitter fight in there. I won out 19 to 17. It went back. It is the first time in history that the Congress succeeded in doing it.

Mr. Chairman, I am more proud of the fact that the Congress went along with my argument and I hope this year the President's budget recognizes it, too. I would like to read to you if I may:

Mr. Chairman, as a member of the Committee on Appropriations, I offered this motion to reduce each item 2½ percent and to retain the 67 new projects, after it became apparent that it would not be offered otherwise. I am not a member of the Public Works Subcommittee. I have no projects in this bill, present, past, or future. I offered that motion because I think, and I thought then, that it is high time we took care of our own country.

If the President and a majority of the Congress are going to have a foreign aid program of billions of dollars annually; if we are going to raise travel allowances for Federal employees, Federal pay; if we are going to increase benefits to veterans, and provide more inflated dollars to almost everything, if we going to have all these other things, if we continue using appropriations to put money in the hands of people and thereby increase the national debt, I think that we owe it to our future and to our children to protect our own country, its soil, and its natural resources.

The President's veto would have us do all these other things at the expense of our own country. These facts are argument, not against domestic public works, but for them.

May I say to you that the argument made as to how much we owe, and about the deficit and all of that, is the strongest argument for giving attention to our own country that I can bring you.

May I tell you that the strength of the dollars that we have, the ability to pay debts that we owe, for whatever it is worth, is dependent upon the country that stands behind it.

While I could say many fine things about the chairman of my committee and the ranking Republican member, and we can all second-guess the other fellow, but if I were running the Appropriations Committee, in the capacity of either one or the other, the first bill on this floor each and every year would be public works.

It is not bacon, not pork, but I would protect the base from which all these other things must be supported.

Mr. Chairman, money spent improving the Nation, preventing floods, that cause damage of hundreds of millions of dollars—and preventing drought damage, improving harbors, is sound. Yes, I would look out for my country first, recognizing that it is the basis for everything. Then after we have looked after the factory and the home, I would see what else we were able to do. * * *

Mr. Chairman, the point I make here is that there are hundreds and hundreds of illustrations in the hearings which show that defense today is about 50 percent pump priming to keep everybody happy through the next election, keeping something spent in everybody's district.

We are on that treadmill. I think it is extremely dangerous because a strong Nation to back up a military is just as essential as a military out in front with no reserve behind it.

I do not mean this will crack up in a year or two years. I mean if this cold war is a 20-year deal, we cannot let the present conditions continue at the rate we are doing.

I have a little statement in here that I rather think is representative. I say this:

Because so many factors, vested interests, pump priming, and other considerations have crept into the field of defense spending, it is next to impossible to get anyone to look at the matter objectively.

A few years ago a relatively unknown U.S. Senator became Vice President, then President, largely by virtue of investigations of military waste.

Today, however, we find that defense is largely measured by the level of spending. The Rockefeller report, the Galtner report, and practically all others stress: "We must increase the level of spending."

Today we don't find any of those mentioned for the Presidency in either party stressing the wasteful defense spending, but, rather, the higher level of defense spending which he will either bring about or continue.

All, in their public expressions, seem to ignore or, in my opinion, at least, fail to stress that a solvent, strong, inflation free national economy behind our frontline military is an equal or perhaps an even greater part of our overall defense strength than the frontline military.

It is not that these men are not able, strong, and possessed of integrity. Rather it is because they are experts in judging public opinion. No longer is it politically popular to scale down, even if we don't need the particular production, if thereby we affect adversely immediate employment in a particular area, or stir up a particular military service, or stir up a large segment of the financial giants in the Nation.

What frightens me is that I believe these potential candidates have judged public opinion correctly, and therein lies our greatest danger.

When the American people are more interested in turning the wheels, leading more and more to paper money, with less and less attention to maintaining a strong economy to support our military, I believe it is high time to stop, look, listen, and act.

At the same time, I have confidence in the American people; and I firmly believe that if even one of those mentioned for the Presidency set out to show the American people the wasteful ways in which their money is being spent, if he got the facts over to the American people, I believe the people are sound enough to make that man President. I know such a man would render a great service to the future security of our Nation, whether he won or lost.

May I repeat, if Russia's threat is not nearly as great as some folks seem to believe, if it is not, certainly it is unwise to spend all these billions for which we get no defense.

By the same token, if the Russian threat is anything like as serious and will be for 20 years, it is dangerous to exhaust ourselves as though this was a 100-yard dash.

Mr. Chairman, in coming over here and making this statement, I close here by saying I realize I have made about a 100-percent effort,

I feel free to do it because there are precious few speaking out on my side and I know if I make the 100-percent effort we will be lucky if we get 10-percent effectiveness.

I shall be glad to answer any questions you may have.

May I say again, Mr. Chairman, the prepared statement tends to touch on many things and on either one you could show related factors and other things, but in the interest of not making it too voluminous I tried to make it so that you might see the point I have in mind.

Representative PATMAN. I would like to say, Mr. Chairman, that Mr. Whitten has made a very fine statement. I shall look forward to reading his entire statement in the record.

The CHAIRMAN. We are very fortunate in having two of your friends and colleagues from the House this morning.

Congressman Curtis?

Representative CURRIS. I first want to say how pleased I was to know that Congressman Whitten was going to testify before our committee and to welcome him here.

I also want to say this for the record, that over a period of years I have been pleased to listen to Congressman Whitten on this subject on which he is so knowledgeable and to appreciate the work that he has been doing in detail in the Appropriations Committee.

I am sorry I was not here to hear the whole statement, but I know it is of real value to us. I am going to read it carefully.

One question that I would like to address to Congressman Whitten, because of his knowledge, as we all gain some knowledge of committee procedures and setups in Congress, here is the Joint Economic Committee undertaking some studies in this aspect of defense procurement, the reason being that defense procurement is now very apparent, is so large that it has a great impact on the overall economy as well as on many of its important segments.

Yesterday we learned the disposal of military surplus and equipment is so great it itself is having a noticeable impact on our economy.

One point that you made while I came in the room bears directly on this theme. Some people argue that we should just spend more in the military area.

Indeed, the Joint Economic Committee has listened to witnesses who argue that the Federal spending needs to always be at a certain level, and that if we were not spending for the military, then we ought to be figuring out how to spend somewhere else. They argue Federal spending is necessary to stimulate and help the economy.

I happen to be in complete disagreement with that particular school of thought.

Mr. WHITTEN. I recognize that, may I say to my colleague, and I appreciate very much his nice statements referring to my work on the House side.

I am like many, I do not subscribe to that. I realize this, that in any economy that you have built up certainly to the levels that ours has now, that Government spending, since we have been leaning on it as long as we have, must be dealt with carefully in a period of adjustment. We may be more dependent on the Government than we should have been. Having gotten ourselves in this predicament, but the folks you have reference to, and I know that there are many who do,

you do not have to differ with them about the necessity of Government if you follow this.

If Government spending be essential as they say it is, and I do not agree with that except perhaps for an adjustment period. If you agree that it takes government spending to keep the horse going, you cannot find any other place where you do not get some goods for your money except in defense, in defense except for the benefits—now, we need defense for safety—but other than the safety factor which does not enter into the economics, except for the resulting benefits of research, you might as well, so far as your economy is concerned open the window and throw the money out of the window on the theory that whoever picked it up would spend it, and so forth.

So this is the poorest place in my opinion for needless expenditure.

I do not want to be misunderstood that I am not for defense. I am thinking that perhaps 50 percent of what we are getting is for real defense, the other 50 percent is for pump priming or other things.

I think in the long run it is extremely dangerous. Someplace in this report I make this statement. I think I am more afraid than anybody of Russia.

I think Russia is making enough progress that we had not better be exhausted 20 years from now.

PROFIT WITHOUT RISKING CAPITAL

The other point that I have directly had in my mind and it is separate from this, I believe in private enterprise, but is it private enterprise when the Government sets up a tremendous company, builds its plants for it, furnishes them money to operate on, where they have no risk whatsoever, and then adds tremendous profits? Is that protecting private enterprise, or is it giving somebody a cut in on defense spending?

That is what we are doing at least substantially in many areas.

We are setting a man up in business, we give him advances, put in his plant, put his equipment in, give him money for his payroll.

When he is through we give him his profit.

Representative CURRIS. There are a lot of things in the manner in which we do spend. In my judgment it comes to this situation, that we do know that even if we get this military spending into the level we think is proper from the standpoint of efficiency and defense, we know it is still going to be tremendous and it is going to continue to have a great impact on our economy.

Therefore, it becomes more important than ever to be sure that the procurement techniques used, and the gentleman has addressed himself to one, be good technique and not be in process of just enriching a certain group of people.

Mr. WHITTEN. There are just so many angles in this overall situation.

As I say, I am more fortunate than some because there are no military establishments in my district, but we have this military spending so built in that it is within the power of those making decisions to make or break a company, to make or break a region, or to make or break any man who happens to represent them here, if they close down a plant or cancel a contract.

I know several friends of mine who were rendering good service, that this kind of thing has contributed greatly to the change.

I am trying to say that their influence in a particular area, through contracts, or closing establishments, goes to the extent that the people are looking to somebody who can keep the plant open and keep it going.

Representative CURTIS. It is obvious the size of it is important in our legislation today. For example, there is provision to try to let contracts, to give priority to what are called depressed areas.

JURISDICTION OF THE JOINT ECONOMIC COMMITTEE

But to come back to the basic question I am leading up to here, I have tried to think this thing out in my own mind.

Both the Armed Services Committees are doing their jobs, but their job is concerned with the objective of military spending and only incidentally with the methods. They do not have the job of viewing that spending in relation to the impact on our economy. The Appropriations Committees are concerned with efficiency of spending in relation to the institutional setup we have at a specific time. The Government Operations Committees though concerned with methods and efficiency are not charged with relating military spending to the impact it has on our economy.

Then I begin to think, what committee in the Congress do we have that would have this broad approach. I could come to only one conclusion, Mr. Chairman, that this Joint Economic Committee probably is the only place where Congress can take this broad look.

I would like the gentleman's views as to whether this committee, in his judgment, is wise in undertaking this and whether we are duplicating the work of another committee, whether or not we might well do this permanently.

Mr. WHITTEN. I think that this approach is very badly needed and my view comes from years and years of service in this field.

The views I pointed out here, I do not want to lead anybody to believe that the majority on my committee stress this side. In fact, I get mighty little help sometimes in pointing up this particular facet or side of the situation.

If I had not crossed this bridge earlier, I would not feel at liberty to say it here, but I used it on the floor of the House, I felt to strongly about it.

But 2 years ago the Appropriations Committee and the subcommittee, of which I am a member, reported and passed through the Congress more money than the Budget Bureau was going to permit them to spend. They came to the other body and they added a billion dollars anyway.

So the House bill—that was their right you understand—carried more money, itself, than the authorities had agreed would be spent.

We went to conference. The whole billion dollars in controversy was over and above what the Defense Department, the executive and budget department, had served notice they were going to spend.

Notwithstanding that, we had to add \$600 million to get agreement.

Then they decided in this conference as to who was going to get the additional money in a further backlog of contracts. I suggest they

might as well flip a coin, if we are going to run the Government's business in that fashion, and see who is lucky instead of who might have the key man on this committee.

Now, that happened. We have not gotten to where this kind of thing goes on and on and on. I could cite a hundred illustrations if I had time.

Representative CURRIS. One of the advantages of the Joint Economic Committee is that this is not a legislative committee. In other words, we have no specific legislation to consider.

But the function that we have served, and I think well, is to try to bring these economic factors out into the open objectively for the benefit of the legislative committees.

I believe, for example, if some of the data we might be able to develop were available to your Appropriations Committee—

Mr. WHITTEN. We start hearing defense almost the first day we come here and have at times continued until the close.

In my opinion we need all the help we can get. I would like to see you get the information and make it public.

It is the effectiveness with which you used it rather than just supplying it to us.

Supplying it to us makes us a little more aware of it, but I think an overall committee ought to be prepared to go to the floor and take issue to pull things back.

This is a difficult situation. In my prepared statement I point out that in our Committee on Military Construction we have a tremendous map. Congressman Sheppard of California a fine member, has a pin in that map representing each military establishment in the United States. On some areas you have to put the pins out in the ocean. There is not enough room on the map of the State.

You can look at some of our key people in the key places in the Congress and go see how many military establishments are in their district.

I do not say that critically; I just say that it does not lend itself to an objective determination of these matters which in turn leads me to seek your help to kind of hold this lid on by pointing out to the country what is happening.

I am more afraid of Russia and those folks who think we have to spend now to keep the wheels going, and forget tomorrow.

We cannot afford it.

Representative CURTIS. Thank you.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. I want to go back to this \$600 million in the conference that you referred to.

Mr. WHITTEN. It went to the aircraft companies and the shipyards in a further backlog of orders. That is an actual fact.

Senator SPARKMAN. Was that the question that grew out of a direction from the House committee that a certain weapon system should be pushed ahead of another one, whereas the Senate committee had recommended just the opposite?

Mr. WHITTEN. No; it is where the President through the Budget Bureau announced that whatever we might appropriate, that under the present circumstances, the defense spending for a particular year was not going to exceed so much.

My good friends on your side and most of them on my side, felt that the executive department was making a mistake. I did not so think, but a majority on both sides did.

So involved, was a controversy between the legislative body and the executive department, they did not want to come down, our friends largely on our side of the aisle frankly did not want to scale the appropriation back to that level, but let the executive department have to support his own thinking.

At any rate, the whole billion dollars was over and above the announcement that had been made as to what would be spent.

After agreeing on the figure of the \$600 million, they agreed on who was to get the money, not in spending this year, but in a further backlog of orders.

It went to the shipbuilding companies and the aircraft, not for immediate spending, but as a further backlog of orders.

I think that is a whale of a way to run a railroad, but I am in the minority lots of times.

The CHAIRMAN. We want to thank you, Congressman. You have a lot of experience on this subject. I want to ask two questions in conclusion.

We all agree that the percentage of negotiated contracts is excessive and in the last 2 or 3 years it has been increasing.

Do you see any way that the legislative branch of government can compel the Defense Department to reduce the percentage of negotiated contracts and to increase the percentage of competitive, advertised contracts?

WHAT TO DO ABOUT NEGOTIATED CONTRACTS

Mr. WHITTEN. There are things that the Defense Department calls competitive contracts which if you study through them are not that at all.

How you can compel anything that is that big and has that many ties all over the country is pretty difficult.

In an effort to try to reach it, in my opinion, if you made them have proper planning first, if you had definitive specifications of what it is you want and made them have it in sufficient time, that is one thing.

Then, on these research and development approaches where the Government puts up everything, if that were the Government instead of some particular contractor, you would, I think, save lots and lots of money.

Now, it is the most difficult thing in the world, even with the help of top people in the Defense Department, trying their best, it gets so big and so broad it is practically impossible to get your hands on it.

I do not want my statement this morning to be taken to indicate that we do not have worlds and worlds of fine people in the service, but it is not their job as they say to consider the economic effects of these decisions.

First, proper planning and the requirement that they have it spelled out would contribute in the direction. But how to force them to do it.

May I say I have spent about 6 years trying since going back on the Defense Subcommittee and during the war on Navy appropriations.

May I take up a minute of your time just to show you how tough this problem is?

In World War II the Navy requested a whole lot of money for new airbases. I asked them why they did not use abandoned Army airfields. At the lunch hour they came back with a letter from the Army, saying the Army had not abandoned any fields.

I called on Assistant Secretary Patterson. He said, "The hell we haven't."

Those were his exact words. We got the Army people down here and it developed I had inadvertently used the word "abandoned."

The Army said as long as they have a caretaker it was vacated, not abandoned. The Committee on Joint Use had not met throughout the war. They met for 30 days. We ended up the first year with 160 facilities transferred.

The Assistant Secretary of War, from Texas, incidentally, said that the tragedy was that after they understood what we meant that the Army had to get on the telephone and go to the various areas to find out what surplus they had because they did not have any such information here in Washington.

Now, this lack of liaison or this lack of top planning in my opinion is a major problem. Today actually, we have four services, we don't have integrated services; we have Army, Air Force, and Navy and the Pentagon, and all of that is another situation which I believe is leading to tremendous waste in this whole thing.

I remember that they got Air Force to finally set up a joint supply depot. They kept it a year or two and they quit.

They would not follow through on it. It has certain benefits I suppose to have competitive spirit between services, but it is a terrifically expensive one.

General White under questioning the other day testified that on the Joint Chiefs of Staff that he had opposed this carrier for the Navy. I am not pro-aircraft-carrier or anti-aircraft-carrier. I do not know.

But it was left that General White did not think the carrier was any good. I asked him, "Do you mean that the Navy could spend that money better than on a carrier?"

He said, "No, I don't mean the Navy could."

I said, "You mean the Defense Department?"

He said, "If the Navy is going to get it, I cannot say that the carrier is not the way to use it."

That indicates the competitive situation between the services, though General White said otherwise.

I have exhausted about every means I know how to do but make them have it spelled out beforehand instead of letting them initiate the proposal and plan as they go along which leads to negotiation.

That is one step that I think would help.

The CHAIRMAN. The second question is this: Is there any way to prevent an excessive volume of purchases to begin with and then premature scrapping of material which is still in good condition and, third, simultaneous purchase of substantially similar equipment and supplies at the same time that other supplies are being scrapped?

SHOULD COORDINATE THE SUPPLY ACTIVITIES OF THE FOUR SERVICES

Mr. WHITTEN. Well, if you could get even coordination or if we could consolidate the four services in the field of procurement in certain areas, it would help do that, but behind it again is this effort at

pump priming where these various companies are trying to sell their production and so forth.

Unless you bring the whole together where the whole picture is there, I am afraid we are stuck with much of what they are doing now.

The CHAIRMAN. Thank you very much.

Representative PATMAN. I have just one question, Mr. Chairman.

The services do not use dollar-a-year men any more, do they, Congressman?

Mr. WHITTEN. Not to my knowledge.

They still use \$75- or \$100-per-day advisers and so forth, but insofar as full-time people, it is my understanding that we no longer have the dollar-a-year people.

Representative PATMAN. Do they have any substitute for the dollar a year men? Do they have people working in these departments who at the same time are working for their respective organizations in private enterprise?

Mr. WHITTEN. No; unless you were to say that a person who was an adviser, who was available a few days a month or something like that, unless you were to say that that was it.

But as I tried to point out earlier, I am talking about a system, not people, or individuals.

Representative PATMAN. I am talking about system, too.

Mr. WHITTEN. I know you are. When you have big business running the Defense Department and have 18 pages of military people running the companies' business, it is pretty hard to figure what is what or rather who is who.

Representative PATMAN. Do you feel that is a wholesome thing to have the ex-officers go into private industry?

Mr. WHITTEN. Well, to draw a firm line, if the man out of the military in turn has particular knowledge that is needed you can see that is one thing.

I just say it does not lend to public confidence, it does not lend to a wholesome atmosphere, even though everybody means the very best.

Representative PATMAN. Is there not a bill pending now by Mr. Hébert of Louisiana?

Mr. WHITTEN. I have largely followed it through the press. He has offered a bill which would require them to at least have a 2-year lapse before they could get to work for a contractor.

Representative PATMAN. It has not worked too well in other branches of the Government where they have that system. That does not keep a lawyer from becoming associated with a law firm that has a conflict of interest as long as he is not actively engaged in the case?

Mr. WHITTEN. Many of the things we have talked about, which we set out to see how we could make the Defense Department do, we may be looking at the wrong person in that, I think the public sentiment, on the contracts, military establishments, and wanting the spending to go on and wanting to keep our synthetic prosperity, and the pressure is there, probably leads the Defense Department as much as the Defense Department leads in this direction.

I think the public feeling has been built up that if we do not keep all this spending we are going to have a depression. It is my belief that if we don't do something we are in for a crackup.

Again I say we may have to have a period of adjustment, we have this thing going so fast, but you cannot find a place where you get less for your dollar than in needless spending in the name of defense.

Please draw the distinction. Just about half of what we spend, I do not think is real defense.

Representative PATMAN. I agree with you that is the most inflationary spending we could have.

I am not committing myself on the association of officers with private companies.

Mr. WHITTEN. There are certain benefits. I doubt if we would ever have had atomic energy except for the pressures of war.

It is doubtful if the Government would have put up that amount of money.

In Washington in some other places, it might be that you need a shotgun in your home for safety. But certainly if you drew on your bank account and bought more shotguns you could not use, it would not help your economic condition.

So we need whatever we need in the way of defense but to spend 50 percent more just to get the wheels turning certainly does not help the Nation's economic condition where there are no goods to offset it.

Representative CURTIS. Talking about this personnel problem you mentioned, the retired military officers going into companies with defense contracts, I think it might be well, too, for us to look at the connections of the various Secretaries of Defense and Assistant Secretaries of Defense with companies with defense contracts. The staff prepared a list of the average length of stay of the various secretaries and assistants. It runs around a year and a half or 2 years. I am not calling attention to the connection because there is anything actually wrong. All I am saying is that, of course, when you get this natural tie-in, the public has to be concerned about it, and we have to be even more concerned about other features of the system under which we operate.

I have heard military officers, and I think rightly, point out that it is a shame to waste the skills that they have acquired after they retire, which would be wasted if they did not go into some of these companies.

I think there is a great deal to that. But it requires a balance.

Mr. WHITTEN. I recognize that.

Last year I asked if we could first get a list of them and then decide, because we did not want to step in and act without full knowledge.

On the other hand, the other side of this, if I may say to my colleague from Missouri, and again I am not talking about people, when you have all these folks go into these companies, then it may lead the service to give the company business so that they can keep the man happy and employed.

You have that aspect of it that you have to be on guard against.

It will be made work, so to speak.

Representative CURTIS. There was one area that I wanted to examine into just a very brief bit just to bring out the problem.

I think you mentioned it when you were talking about the Government furnishing a great deal of the capital necessary for some of these companies to operate.

Mr. WHITTEN. In some cases you might say all of it.

Representative CURTIS. Yes. I have had that brought to my attention in considerable detail as a member of the Ways and Means Committee where we have under our jurisdiction the Renegotiation Act.

It is the airplane companies to a large degree. I think something like 70 or 80 percent of capital furnished is Government capital.

The argument is that, therefore, they should earn a lower amount.

I want to just pose this one question. It is the question I asked the various witnesses:

Do we contemplate 10 years from now having the same situation, the Government furnishing 70 or 80 percent of the capital or do we hope that maybe in 10 years most of Government capital will be replaced by private capital?

Mr. WHITTEN. It is pretty hard for me to figure out sometimes what the people contemplate, or what the Congress contemplates.

I do not have the least idea. I am fearful that if we follow the present road we may get something we did not contemplate because I think we are heading toward that line.

May I say, using a homely illustration again, the biggest reason we have trouble in getting something done about this goes back to when I first came here, which was a number of years ago, back when you had mules and all that in farming. We had a circuit judge where I had been district attorney. Shortly after I got here I had a letter from him. He said, "Jamie"—he called a man's name—"came in to see me." He said in his town every time the Farmers Home Administration bought a mule that they were giving his brother a \$15 kickback.

The judge said, "I will write Jamie and he will stop it."

He said, "No Judge, I don't want him to stop it. I want to make him cut me in on it."

We get little help in correcting this situation because too many areas have been cut in or want to get cut in.

I mean temporary activity, employment temporarily, or closing this factory down, where are the people going?

There is mighty little of the Nation that is not involved to say the least. I think we have gotten ourselves in such a situation without an awareness to the point where it is going to be hard to scale it back and if we don't wake up, the situation gets more dangerous.

I think we have to give some attention to at least shifting the surplus spending to activities where we can get some goods to offset it.

Representative CURTIS. Again I want to thank the gentleman for bringing out these points which are convincing me, not that I needed convincing, that this committee has been very wise in going into this area.

It is something that we might well consider remaining in.

The CHAIRMAN. We thank you very much, Congressman. We appreciate your coming. You have been a very valuable witness.

Mr. WHITTEN. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is Mr. Elmer B. Staats, Deputy Director of the Bureau of the Budget.

Mr. Staats, before you proceed will you identify your associates?

As you do so, will each one of them advise the committee as to their respective responsibilities?

STATEMENT OF HON. ELMER B. STAATS, DEPUTY DIRECTOR, BUREAU OF THE BUDGET; ACCOMPANIED BY WILLIAM F. SCHAUB, CHIEF, MILITARY DIVISION; GEORGE G. MULLINS, CHIEF, PROPERTY AND SYSTEMS MANAGEMENT GROUP; AND SAMUEL M. COHN, CHIEF, FISCAL ANALYSIS

Mr. STAATS. Thank you, Mr. Chairman.

I have with me here this morning three of the members of the staff of the Bureau of the Budget, Mr. George Mullins is here to my left. He is Chief of our Property and Systems Management Group in our Office of Management and Organization. To my immediate right here is Mr. William F. Schaub, who is Chief of our Military Division. To his right is Mr. Samuel M. Cohn, who is Chief of Fiscal Analysis in our Office of Budget Review.

Mr. Chairman, I am very happy to have the chance to appear here before you again this morning. I have been here a number of times before the Joint Economic Committee. It is always a pleasure to come back.

I appreciate the opportunity to be here today to discuss briefly, the procurement and supply activities of the Government. As you know, direct Federal expenditures for goods and services comprise a considerable portion of the total Federal budget; during the past 2 fiscal years such expenditures have amounted to over \$50 billion annually, which is about 11 percent of the gross national product. If we exclude military and civilian payrolls and related costs, the Federal Government's purchases from private businesses amount to about 7 percent of the gross national product.

The Federal Government is the Nation's largest employer and largest purchaser. Considering the magnitudes, we can appreciate the interest of this committee in the Government's procurement and supply systems. It is a concern which we in the Bureau of the Budget share with you. Of course, other committees, such as those for appropriations and Government operations, also have a direct concern and responsibility in this matter, as do such Government operating agencies as the Department of Defense and the General Services Administration.

The biggest portion of the Federal budget and of the Government's purchases is for the DOD. Budget expenditures for the military functions of the DOD are estimated at \$41 billion in 1961, which is about the same as the current estimate for 1960. The following table shows the breakdown of this total by appropriation group for 1959-61.

(The table referred to follows:)

Summary of military expenditures

[In millions of dollars]

	1959 actual	1960 estimate	1961 estimate
Military personnel.....	11,801	11,959	12,140
Operation and maintenance.....	10,384	10,137	10,321
Procurement total.....	14,410	13,943	13,602
Aircraft.....	7,058	6,070	6,027
Missiles.....	3,339	3,500	3,479
Ships.....	1,403	1,051	1,044
Other.....	1,921	2,121	2,451
Research, development, test, and evaluation.....	2,859	3,680	3,917
Construction.....	1,948	1,070	1,359
Revolving and management funds.....	-169	-444	-350
Total military functions.....	41,233	40,945	40,995

The purpose of this table is to help relate the procurement total to the totals in the military budget.

You will note that in the "Procurement total" in 1959 it totals \$14,410 million; 1960, \$13,943 million; 1961, \$13,602 million, which is a relatively constant figure, a slight decrease in these 3 years relatively.

The "Construction" item, as you will note there, is down some and the "Revolving and management funds," in which we have been very much interested, shows a negative figure for all 3 years, \$444 million for the year ending next June 30 and \$350 million anticipated for 1961.

No one can deny that purchases of the indicated magnitude have a substantial impact on our economy. The impact has its greatest force in specific industries and geographical locations.

Employment and payrolls in the aircraft, shipbuilding, electronics, and several other industries are dependent in varying degrees on Department of Defense expenditures for these goods.

As an illustration, the aircraft field total sales of all aircraft manufacturers to the Government make up 86 percent of the total for that industry.

That ranges downward in the field of electronics, which is another example, to radio and communications equipment, where sales to the Government constitute 22 percent of the total. Then you get on down to items which are common to civilian as well as military economy such as motor vehicles and equipment. About 2½ percent of sales in that industry are to the Government. In the clothing and textile field it is running about 2 percent. These are based on fiscal 1959 figures. We do not have any figures for this year. In other industries, as I have mentioned, textiles, automotive industries, defense procurement also is important, but is proportionately a less significant determinant of the industry's output.

One of the most important characteristics of defense spending today and as projected forward is the rapid pace of technological changes and in weapons modernization. As was pointed out in the President's budget message:

The last few years have witnessed what have been perhaps the most rapid advances in military technology in history. Some weapons systems have become obsolescent while still in production and some while still under development.

It is inevitable, given the pace of change, that outmoded as well as worn-out defense supplies and equipment are generated in large quantities.

In the past 2 years the Government generated excess personal property which cost \$14 billion, and we are informed the volume will increase during the next few years due largely, but not entirely, to accelerated replacement of military equipment. The utilization and disposal of excess and surplus personal property is now one of the Government's most difficult administrative problems, and we have joined with the Department of Defense and the General Services Administration in order to deal with it effectively. To encourage more utilization of excess personal property within the Government, we are working with the GSA in relaxing existing policies under which agencies are required to pay for excess property transferred to them.

This is a very recent step, Mr. Chairman. You may recall that under the Federal Property and Administrative Services Act, which the Bureau of the Budget took the lead on back in the late 1940's, and which Mr. Ward will well remember because of his identification with that move, we had a firm requirement that there be reimbursement by the agencies when excess property was transferred from one agency to another.

Since then there have been some modifications. We believe, in the light of the experience, it is worth attempting to see what can be done by way of moving this property between agencies more expeditiously under arrangements whereby they will not be required to make reimbursement. The Bureau of the Budget will take steps to avoid undue augmentation of appropriations as a result.

Now, to continue, we recognize that administrative safeguards will be necessary in order to assure that property is transferred only when it is needed for an approved program and that appropriations are not unduly augmented by such transfers.

We are also conducting a sample analysis to determine the extent to which agencies may be purchasing new property when their needs could be satisfied through use of available excess. Our objective is to identify the basic causes of such practices and to develop practical corrective measures, if needed.

Primary responsibility for property and supply management activities in the Government is properly assigned by law to the Administrator of General Services, the Secretary of Defense, and to the operating agencies which are partially or wholly exempted from the provisions of the Federal Property and Administrative Services Act. The Bureau of the Budget has a very substantial interest, however, because procurement and property management are important elements in the President's budget and because governmentwide issues of organization and management are involved.

For example, during the past several years, the Bureau has supported the single manager system for the Department of Defense, although we recognize that it may have to be expanded and revised on the basis of experience if we are to attain the most effective and economical supply management. I think here the Defense Department will set forth for you this afternoon some recent steps which have been taken in this field and plans which they have for extending them.

The Bureau has also urged that the GSA be assigned greater responsibility for the furnishing of common use and administrative supplies to the Department of Defense. The volume of business handled by General Services Administration for the Department of Defense has increased steadily each year. This fiscal year the volume of shipments from GSA's warehouses to the Department of Defense is expected to be about \$180 million, which is more than five times as large as in 1953, and we believe the volume can and should be further increased. Present plans in the Department of Defense to review its current methods of procuring common use items should result in an orderly, but substantial transfer of procurement and distribution responsibility from the services to General Services Administration. We intend to keep in close touch with this program as it develops, not only because we believe its success is important, but also because it will affect the current and future budget requirements of both the Department of Defense and the General Services Administration.

The Bureau also performed the staff work for the President in carrying out a recommendation of the Cabinet Committee on Small Business. This resulted in an assignment of responsibility to the GSA for making an analysis and for standardizing the Government's policies and procedures for procurement and contracting. The main objective of this program is to make it easier for industry, and particularly small businesses, to do business with the Government.

Examples of other areas in which the Bureau of the Budget has been active include:

1. A full-scale study of the organization and management of the General Services Administration, a survey financed from the appropriation to the President for expenses of management improvement. Some of the fundamental changes in organization and policy which the present Administrator of General Services has implemented were based upon that study. This study I believe was completed in 1956.

2. A study, also financed from the President's appropriation, to determine the best organization and assignment of responsibilities for procurement and distribution of subsistence supplies used by the civilian agencies. Agreement has been reached between the General Services Administration and the Veterans' Administration for consolidating responsibility for procurement and distribution of subsistence supplies, but actual operation under the new arrangement has not commenced.

3. Strong budgetary and management support of the interagency motor vehicle pool program being carried out by the General Services Administration. Such support has taken several forms. For example, under the statute which authorized establishment of inter-

agency motor pools-- Public Law 706, 88d Congress-- as implemented by Executive Order 10679, the Bureau is responsible for reviewing and deciding any objections raised by agencies regarding proposals that they participate in intragency pools. The Bureau has also reviewed agency budget requests for purchasing additional or replacement vehicles with a view toward supporting the interagency pool system.

4. A joint effort with the General Services Administration to develop standards for purchases of motor vehicles used by the civilian agencies. Use of these standards permits more orderly procurement of vehicles in quantity rather than on a piecemeal basis.

5. A joint program with the General Services Administration in developing an improved system of supply inventory reporting which will serve the needs of the Bureau of the Budget and the General Services Administration in reviewing and evaluating inventory management in the operating agencies. The system which was installed recently is the result of several years of joint work.

6. An evaluation of the Federal catalog system, including both the defense and civilian agency elements of that system. The factfinding phases of that effort have been completed.

The above is not intended to be a complete listing of matters relating to property management in which the Bureau has been active. For example, inventory levels in all agencies are under continuous review as an important part of the normal budget process. Efforts are underway currently to develop a more effective system for agencies to identify real property holdings which they no longer need and to speed up the processes for the disposal of such property.

We believe that progress is now being made in improving the management of our procurement and the supply activities, and we are convinced that the measures now underway can produce substantial results in the future. However, much remains to be done. It is essential that both the executive branch as a whole and the Congress provide aggressive, constructive, and sustained support. The Bureau of the Budget welcomes the interest of this committee and hopes its suggestions will aid in our joint effort to provide efficiently the strong defense and other essential services needed by our people.

Mr. Chairman, I would like to reiterate here the remarks made by the preceding witness that we feel that this whole subject is so important for our economy that it is a matter which we very well welcome this committee's interest in.

If the committee has any suggestions where the Bureau of the Budget, as an organization, can strengthen this whole program, we will be very much indebted to you.

THE BUREAU'S GUIDANCE IN SUPPLY MANAGEMENT ACTIVITIES

The CHAIRMAN. Thank you very much, Mr. Staats.

Last year various members of this committee called to the attention of the Director of the Bureau of the Budget the large volume of supplies and equipment in storage, then amounting to approximately \$43 billion, and under the most liberal interpretations of military needs that some \$17 billion of this would be in excess.

Since then the estimators of the excess have increased to a little less than \$27 billion.

We urged the Bureau of the Budget to be active in this matter. I would like to have you state what has the Bureau of the Budget done in this last year.

Mr. STAATS. Mr. Chairman, I mentioned several things that I believe are related to the point raised here last year and I well recall this discussion.

We have added to our own staff resources in this field. We have undertaken several of these steps that I have just mentioned since that time and growing in part out of the interest expressed by the committee last year.

We have also, as I believe the budget figures indicate, attempted to draw down the total stock funds here to the lowest level we can and I believe that the figures on the level of procurement do give some evidence of our work in the budget review field itself.

But this is a big problem; we have continuous relations with the Department of Defense and the General Services Administration on it.

I think we have made some progress since last year on the single manager system, which has been mentioned. Two of these were announced in November, as you know, and there is work going ahead on others.

I mention these because we do have now a full-time staff in this field and we hope, as we can, to augment the staff that we have working in this area.

BUREAU MADE NO EFFORT TO LIMIT NEGOTIATED PROCUREMENT

The CHAIRMAN. Now, one of the subjects which has been continuously up for discussion in Congress is the extraordinarily high percentage of negotiated contracts. This is referred to again and again in hearings.

To repeat, 87 percent of the dollar volume of defense contracts in fiscal 1959 were negotiated. Only 13.6 percent were awarded after normal competitive bidding. This percentage was lower in the last 2 years; that is, the percentage of competitive-bid contracts was lower in the last 2 years than it has previously been.

Now what is the Bureau of the Budget doing to diminish the relative volume of negotiated contracts and to increase the relative volume of competitively advertised contracts?

Mr. STAATS. Mr. Chairman, I am afraid on this one that I am going to have to say that I am probably as much at a loss as anyone to know what steps can be taken. I recall very well some of the debates and the controversy over the Armed Services Procurement Act in 1947, which we were called on to work with Congress on, and the reservations which many of us had at that time with respect to the very open language in that act.

I think the fact that it was so open was explained in part by the experience of World War II and the fact that this legislation followed so closely on the heels of World War II.

I note that last year—last spring, I believe, it was—the Armed Services Committee held hearings on this subject.

This is a matter in which we, of course, have no direct authority-----

THE BUREAU IS THE ADVISER TO THE PRESIDENT

The CHAIRMAN. But you are advisers to the President on these matters.

What advice have you given to the President as a means of reducing the percentage of negotiated contracts and increasing the percentage of competitively awarded contracts.

Mr. STAATS. Of course, this is a matter for which the services, the procurement agencies, have the primary responsibility.

The CHAIRMAN. But the President of the United States is Commander in Chief of the services of the United States. You are the staff representatives of the President in these matters.

Do you not think you have a function to assist your Commander in Chief?

Mr. STAATS. This would not come before us unless requested, Mr. Chairman. We have no charter as such which would authorize us to take any direct action in this field. I do not know of any specific proposals which have been placed before the Bureau.

The CHAIRMAN. You have no power to initiate studies to see what should be done?

Mr. STAATS. The question as to the appropriate level of negotiated versus the competitive bids is a very large problem, as you know. The small number of contractors we have engaged in the missile programs inevitably affects the level of negotiated procurement in dollar volume-----

The CHAIRMAN. This is not only missiles. The characteristics of negotiated contracts run across the board.

Mr. STAATS. But the figure of 86 percent does include the missiles.

The CHAIRMAN. I understand, but I say it is not confined to missiles.

Mr. STAATS. No.

BUREAU'S AUTHORITY

The CHAIRMAN. Now, in the organization manual, 1959-60, page 61, describing the duties of the Bureau of the Budget, under the heading "Office management and organization," the following statement is made:

This Office provides guidance and coordination in Bureau activities toward better agency management and organization, conducts organizational studies, coordinates the Bureau's management improvement efforts, and conducts work to improve governmentwide management practices and procedures.

Now that is a very broad grant of authority. Yet you say you haven't the authority to go into this question of negotiated versus competitive contracts.

I am surprised, Mr. Staats, at your statement because it seems to be in direct contradiction to the statement of authority which you were undoubtedly furnished.

Mr. STAATS. Mr. Chairman, if I may respond to your point, I do not happen to have a copy of the Armed Services Procurement Act with me, but I think that legislation makes it very clear where the responsibility rests. It rests very clearly with the procurement agencies.

The CHAIRMAN. The President of the United States is Commander in Chief of the services. The Chief of Staff of the Secretary of De-

ense reports to the President. You are the staff advisers to the President and hence staff advisers to the Commander in Chief of the Armies.

Representative CURRIS. I think you are absolutely right in your statement, Mr. Chairman, your testimony, Mr. Staats, states, I am reading from page 5:

The Bureau also performed the staff work for the President in carrying out a recommendation of the Cabinet Committee on Small Business. This resulted in an assignment of responsibility to the General Services Administration for making an analysis and for standardizing the Government's policies and procedures for procurement and contracting. The main objective of this program is to make it easier for industry, and particularly small businesses, to do business with the Government.

Now this whole issue of negotiated contracting as opposed to open bid is involved in this small business problem, too. I don't mean it is limited to that. Here in your own testimony you stated you perform the staff work.

Surely in that process one of the things that loom very important is this method of procedure of contracting which is negotiated bidding.

So you are in this area. When I was on the Small Business Committee, and I followed it very closely since then, I have not yet seen these figures denied. It shows that as advertised bidding goes up in relation to the proportion to negotiated bids, the participation of small business goes up.

As advertised bidding goes down or more negotiated bidding is done, the participation of small business declines.

So this is right smack in the heart of this thing.

Mr. STAATS. You are quite right. I believe the chairman's question was what are we doing at the moment.

Mr. Chairman, may I talk just a little bit about this overall point? If you examine the figures for procurement on common supply items as compared with, say, military hardware items—common supply items being the kind of items on which you can get competition—on which you can provide standard specifications, then the figures of 87 percent and 13 percent which you have cited, and which are correct, change very, very radically.

I personally think that it is that kind of analysis which is much more meaningful than to compare the overall totals which do include missiles and which include aircraft and which include ships and things of that kind.

The CHAIRMAN. Discussing this matter with Admiral Rickover, who certainly has one of the greatest innovations in naval history, the development of the atomic-powered submarine—Admiral Rickover testified that while there were a certain number of items which were unique and which were completely new prototypes, nevertheless there were also a majority of items, components, which were standardized and that, therefore, the fact that there are perhaps 5 percent of the components which are new and, for security and other reasons, are not subject to competitive advertising and bidding, you could have 95 percent that are standardized and upon which competition can be engaged.

Admiral Rickover did exactly that.

Mr. STAATS. Mr. Chairman, I believe if you review the General Services Administration figures on the procurement, about 60 percent of their total procurement is with small business and that is all under competitive bidding.

The CHAIRMAN. That is General Services. I am speaking of Defense.

BUREAU FAVORS TRANSFERRING COMMON SUPPLIES TO GSA

Mr. STAATS. Yes. I am referring to the procurement though of common supply items which is largely vested in GSA and which will more and more go into GSA. That figure is just slightly under 60 percent.

Representative CURTIS. So the more we shift common use items to General Services Administration we tend to get them on advertised-bid basis.

Mr. STAATS. That is correct.

Representative CURTIS. GSA does some negotiated bidding but it is largely advertised; is that not right?

Mr. STAATS. That is correct. It is our earnest effort here to move as much of the common supply items into GSA as possible. I think that you will find that the Defense Department here this afternoon will testify that they are no longer offering objections to that, but have an active program to encourage moving the common supply items into GSA.

The CHAIRMAN. I am very glad, Mr. Staats, that you approve of the transfer of as many items as possible of a common use nature to the General Services Administration, but what if the Department of Defense does not agree to these transfers?

Do you have any power to compel the transfers?

Mr. STAATS. There is authority in the Federal Property and Administrative Services Act for the Defense Department to make an exception if they so elect.

The CHAIRMAN. That is correct. Is it not true that, however, by Executive order on July 1, 1949, President Truman directed the Defense Department not to except?

Mr. STAATS. That is correct.

CANCELLATION OF PRESIDENT TRUMAN'S EXECUTIVE ORDER OF JULY 1, 1949

The CHAIRMAN. Is it not also true that on the 8th of June 1954, that this administrative order was canceled by President Eisenhower?

Mr. STAATS. That is also correct. I had a hand in the 1949 action, Mr. Chairman.

The CHAIRMAN. Do you not think it might be well to restore the 1949 action and revert to it and cancel the revocation of June 1954?

Mr. STAATS. I personally could not disagree with the suggestion you have made. The DOD and GSA continue to work together and shipments from GSA warehouses to DOD installations have increased each year, from \$32.8 million in 1953, and \$39.8 million in 1954 on up to \$164.8 million in 1959, an increase of more than 400 percent.

The CHAIRMAN. If you cannot disagree, I take it that you agree?

Representative CURTIS. He is in a tough spot.

The CHAIRMAN. I know, but this is our only way of talking with the White House. Carry the message to Garcia to revoke that 1954 order.

SINGLE SOURCE PROCUREMENT

Senator SPARKMAN. While talking about these renegotiated contracts I will bring in another figure which to me is quite illuminating.

Of the negotiated contracts more than 50 percent are negotiated with single source companies. That to me is an amazing figure.

I just do not believe that our economy is set up in such a way that at least there could not be some competition between two or more companies in dealing with all of these things, whether they are big items or little items.

Mr. STAATS. Senator Sparkman, even if we are faced with that as a fact, then the question is, Should there not be some way devised to get some competition between the subcontractors and the sub-sub?

In many cases I do not believe we have a good way to achieve that.

Senator SPARKMAN. I agree with that, but I am talking of prime contracts in which talking with the departments own figures more than 50 percent are from single sources of supply, that is only one company is negotiated with, as I understand it.

Now Mr. Chairman, while we are talking about this I would like to say this:

Of course, as Congressman Curtis knows, who served for a good many years on the Small Business Committee of the House, we have always, both committees have always contended for competitive bidding, feeling that small business could take care of itself in the field of competition but was left out largely in the field of negotiation.

Every year we have this job of trying to prod the services into giving small business a better break.

Now here is something that I want to call to the attention of the committee and Mr. Staats that the Budget Bureau can do.

AMOUNT OF DEFENSE PROCUREMENT GOING TO SMALL BUSINESS

Seeing the difficulty that the Small Business Administration is having in trying to break into these programs I addressed a letter on June 9 of last year to Mr. Wendell B. Barnes, Administrator of the Small Business Administration in which I asked him quite a number of questions about the extent of their operation.

At that time, he told me that the Small Business Administration had only 37 men to cover more than 200 military installations where procurements are made.

Now, naturally, the Small Business Administration is not given a fair chance with an operation such as that.

Now for the 1961 budget the Small Business Administration asks for 200 men in order to carry out this program.

The Budget Bureau and the President in his budget message approves 154, I believe. I do call that point to the attention of the Budget Bureau because it seems to me that would be a field in which something could be done, at least within the sector of the small business segment of the economy.

Mr. Chairman, with your permission I should like to have printed in the record the reply that I received from Mr. Wendell B. Barnes. It is included in one of these Small Business Committee bulletins that I will supply to the reporter.

The CHAIRMAN. Thank you very much.

(The document referred to follows:)

APPENDIX VI

(RESPONSE OF SBA TO COMMITTEE REQUEST FOR ADDITIONAL INFORMATION FOR RECORD)

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., June 26, 1959.

Hon. JOHN SPARKMAN,
Chairman, Select Committee on Small Business,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: This will reply to your letter of June 9, 1959, requesting additional information with respect to the activities of the Small Business Administration in our procurement and technical assistance programs. This information is enclosed and the subjects are discussed in the numerical order as set forth in your letter.

I am pleased to have this opportunity to provide for you and the committee this further information concerning SBA's assistance to small business. If you should desire additional details, I should be pleased to prepare them.

Sincerely yours,

WENDELL B. BARNES, *Administrator.*

1. How many employees are assigned to the Small Business Administration loan program?

2. How many employees are assigned to the procurement and technical assistance program both full and part time?

With respect to questions 1 and 2, it must be remembered that SBA is charged with administering five different programs (including the liquidation of business and disaster loans of the former Reconstruction Finance Corporation) and that funds for the payment of salaries and related costs are derived from three separate sources, as are identified on the attached statement reflecting comparative budget data for fiscal years 1959 and 1960.

Although many employees are specifically assigned to only one of the five programs, the duties of certain employees are applicable to two or more, while still other employees perform essential supporting services for all five programs (e.g., personnel clerks or payroll clerks). In addition, there is the necessity for certain purposes of allocating to all programs the time of supervisory and program administrative personnel, from the Administrator on down the line.

With the desire to be as fully responsive as possible to these questions, we are offering for the committee's information and use a table reflecting a "Summary of personal services" as was contained in our 1960 budget justifications. This table reflects budgeted positions, by organizational unit, separately for the Washington office and for field offices, for fiscal year 1959 and as estimated for fiscal year 1960. See exhibit A.

Reflecting as it does the authorized personnel by organizational unit in 1959, the table indicates directly the program assignment for many of the employees, while also providing information concerning employment in supervisory offices and in offices or smaller units which provide the supporting services for program operations. Bearing in mind the following explanatory comments concerning certain of the position totals shown for field offices, which are not necessarily self-explanatory as to program applicability, it is believed that this table provides a more complete answer to the committee's questions.

(a) Under the Procurement and Technical Assistance Division, 29 of the 108 stenographic and clerical employees provide services for the 51 loan appraisers. While these loan appraisers are under the technical supervision of the PTA Division Chief, their work is performed on behalf of the loan programs.

(b) Although the work of regional attorneys is predominantly for the loan programs, some of the time of these employees is devoted to legal matters arising under the procurement assistance activities of the agency.

(c) With respect to the administrative staff in each field office, mail and file clerks, for example, provide supporting services essential for each of the program operations. On the other hand, the fiscal clerks (or cashiers) work exclusively for the loan program, having responsibility for the receipt and deposit of loan payments, for custody and maintenance of collateral supporting loans and related duties.

3. Does the small business representative have full access to all procurement files and information of all Government agencies?

There are some offices that do make this available, but, generally speaking, our representatives are limited to bidders' lists, bid abstracts, and background information.

4. In the joint set-aside program during fiscal 1959—

(a) How many Government procurement actions did small business representatives review? How many contracts were placed?

See exhibit B. This is a statement of the latest available statistics on the procurement side-aside activity through May 1959.

(b) Will this continued effort assure small business firms a fair share of Government contracts?

Our efforts in this area have resulted in an increase in set-asides agreed to from approximately \$375 million in fiscal year 1954 to over \$1 billion in fiscal year 1958. It is anticipated that set-asides agreed to in fiscal year 1959 will be slightly higher than for fiscal 1958. It is believed that with the manpower available for this program, no appreciable increases can be expected in the future.

(c) How many men are currently assigned to the program on a full-time basis? Thirty-seven.

(d) How many additional employees will it require for the assurance that a fair share of contracts will go to small firms?

In order to effect complete coverage of all Federal Government procurement offices for the purpose of carrying out the set-aside program, it is estimated that over 200 full-time employees would be required.

(e) How many procurement offices are there in the United States?

There are over 200 military and civilian offices where it is believed an effective set-aside program could be conducted.

(f) In how many of these offices does the Small Business Administration have a representative?

Forty-two on a full-time basis and 35 on a part-time basis.

(g) Is full cooperation experienced with other Government agencies in carrying out this program?

As indicated in exhibit B there were over 1,000 set-aside actions initiated which were not agreed to by the procuring agencies. This does not necessarily reflect a lack of cooperation. In many instances it reflects a difference of opinion between our representative and the procuring authority. Excellent cooperation is received from the top Washington officials of all departments and agencies engaged in the staff direction of procurement activities.

5. In work of guiding small firms to areas where competition is needed—

(a) How many Government offices place research and development contracts? Approximately 113.

(b) How many technical personnel are now assigned to this research and development work?

At this time there are eight positions assigned to research and development, six of which are assigned to field offices.

6. In the subcontract assistance program—

(a) With how many prime contractors does the Small Business Administration maintain liaison?

This program is currently limited to occasional visits and telephone conversations with various prime contractors that are located in areas served by regional offices.

(b) Do all Small Business Administration field offices have personnel assigned to this work?

No.

(c) How many full time personnel are now assigned to this function?

Eight.

7. In the field of specifications assistance—

(a) How many offices write specifications?

This information is not available to SBA.

(b) How many specifications are written annually?

This information is not available to SBA.

(c) How many specifications did Small Business Administration review during fiscal 1959?

During the first 11 months of fiscal year 1959, the SBA reviewed 178 Government specifications pursuant to requests originating from Government agencies. During this same period the agency's field offices also reviewed an estimated 200 specifications pursuant to requests received from individual small firms for this assistance.

8. In the field of production--

(a) How many small business firms require this service?

The magnitude of the job of assisting the greatest possible number of small firms is highlighted when one considers that there are more than 4 million small business concerns including slightly more than 300,000 small manufacturers. It is firms within this latter group that would require the production and technical type of assistance provided by the Small Business Act. The need for service in this field has been highlighted by the observations of congressional leaders that many small business problems in this respect arise because of the inability of small firms to remain up to date in production and marketing techniques.

(b) How many men are currently assigned to this activity?

There are 10 man-years currently assigned to this activity in field offices.

(c) How many qualified engineers and industrial officers with production background are employed by the Small Business Administration?

The employment of engineers and industrial officers with production background is confined principally to procurement and technical assistance programs. In the production and technical assistance phases of these programs, SBA has 54 production and industrial specialists assigned to field offices. This includes the 6 field positions assigned to research and development and 15 supervisory positions.

9. In the field of research and development --

(a) How many persons are now assigned to this type of work?

At this time there are eight positions allotted for research and development, six of which are assigned to field offices.

(b) How many men will it take to give full coverage to this research and development program?

This is a new program recently expanded by section 9 of the Small Business Act of 1968. The full scope and magnitude of a program designed to render maximum assistance in this area to all small concerns will not be fully realized for a year or more. It is estimated that to initiate effectively this program as contemplated by the act would require more than 50 additional employees.

10. In this issuing of certificates of competency authorized by the Small Business Administration Act of 1968 in section 8(b) (7) --

(a) How many applications for certificates of competency have been received?

During the first 11 months of fiscal year 1959, 212 formal applications for certificates of competency were received by SBA involving contracts of a total value of \$43,211,000.

(b) How many have been issued by the Small Business Administration under this authority?

During this same period, 104 certificates of competency were issued by SBA with a total value of \$21,480,000.

(c) What is the estimated saving to the Government as a result of the issuance of certificates of competency?

The estimated saving to the Government as a result of the issuance of certificates of competency is approximately 7½ percent.

(d) Have you encountered difficulties with other Government agencies in their not accepting the certificate of competency such as in the Jack Picoult and the Ameco, Inc., cases?

Difficulties have been encountered in having certain certificates of competency honored by other Government agencies. There are recent cases of contractors having to appeal to the General Accounting Office to have certificates of competency accepted by procurement agencies. We have also noted cases where there have been cancellations of procurements after the COC has been issued.

Word interpretation causes the greatest difficulty. For example, in our certificate of competency program we interpret the word "capacity" to mean that the prospective contractor is able to comply with the required or proposed delivery or performance schedule, has the necessary organization, experience, operational controls, technical skills, and production, construction and technical equipment and facilities, or the ability to obtain them.

(e) Is any legislation needed to strengthen the certificate of competency program?

It would be desirable to have the assurance that the provisions of section 8(b) (7) of the Small Business Act be fulfilled with respect to (1) rejections of bids from small companies when the basis for such rejections is actually credit or capacity and (2) the acceptance of SBA's certification by procurement agencies.

In my statement to the Subcommittee on Small Business of the Committee on Banking and Currency, U.S. Senate, on June 22, 1959, I commented on certain proposed legislation which seeks to clarify the applicability of certificates of competency issued by SBA. In commenting on this legislation, I confined my remarks to my own personal views inasmuch as I am not at this time authorized to speak for the Administration in this matter.

Certain procurement agencies have refused to award contracts to small firms certified by SBA as having the capacity to perform the contract under consideration, alleging that these firms are "not responsible" because of unsatisfactory performance of a prior contract. To the extent that the procurement agency looks to the bidder's past performance only as evidence of lack of integrity, in the view of this agency the determination as to whether the contract is to be awarded is not affected by the issuance of a certificate of competency.

However, past performance also is an indication of a firm's present capacity to perform the proposed contract. To this extent it is within the scope of the certificate of competency, and awards may not be refused after issuance of the certificate because of this unsatisfactory past performance unless the procurement agency determines on the basis of sufficient evidence that the certified firm lacks integrity.

I believe that the present language of the Small Business Act should be interpreted in this manner, and this distinction has been affirmed by the Comptroller General. The Comptroller General presently is considering several cases in which this distinction is an issue. We hope that his decision will dispose of the question. If not, this agency would consider recommending an express legislative pronouncement of this distinction between "capability" and "integrity."

In addition, there is some evidence that in some cases Government procurement officials may not be notifying this agency of all rejections of small business concerns because of alleged lack of financial or technical capability to perform the contract work. The Comptroller General has indicated that where the regulations of the procurement agency require such notification (and in most agencies they do) the agency must comply with these regulations. Here again, if the failure to notify SBA becomes a serious problem, we will consider recommending that referrals to this agency for certificates of competency not be dependent upon the willingness of the procurement agency to notify SBA of a proposed rejection.

Mr. STAATS. I would like to say, Senator Sparkman, that we went into the question both with Mr. Barnes and with his successor, Mr. McCullon. I think the figure which is in the 1961 budget does represent a very major increase for this.

Senator SPARKMAN. It is a substantial increase. At least it would be raising that figure of 37 to 154.

But he said in the letter, he pointed out, as I recall, that there were more than 200 military civilian procurement offices and apparently he thought it would be good if he had a man he could attach to each installation or each office.

At any rate, he wanted 200 in that field. The Budget Bureau allowed 154.

I grant you it does represent a substantial increase over the previous year.

IDLLE WAREHOUSE SPACE

The CHAIRMAN. May I ask, Mr. Staats, if your office collects information on the percentage of warehousing space that is idle?

Mr. STAATS. I would have to ask Mr. Mullins to answer that question.

Mr. MULLINS. We do get reports which are prepared by the Department of Defense. The figures on the civilian agencies I cannot answer that right now. I don't know. I would have to check it.

The CHAIRMAN. Have you tabulated the results?

Mr. MULLINS. No, I have not.

The CHAIRMAN. We have made a tentative tabulation although we are somewhat understaffed. For your information I may say from these reports we find that approximately 15 percent of the overall storage space is idle.

In some services, of course, much more than 15 percent.

Now, we shall be very glad to share this information with you. We have it here. Even though we are understaffed we will be very glad to lend you an employee to assist in tabulating this material for you.

But may I ask this, in the budget for the coming year is additional warehousing space proposed for Army, Navy, and Air Force?

Mr. STAATS. That bill is before us at the moment, Mr. Chairman. It has not cleared the executive branch.

The CHAIRMAN. We will be looking with great interest at that military construction bill.

Mr. STAATS. We will be very happy to have that information. Does this information reflect a fairly recent picture?

The CHAIRMAN. They are figures as of June 30, 1959.

Mr. STAATS. Thank you very much.

INACTIVATION OF DEPOTS

The CHAIRMAN. Now, we do have a schedule of the inactivation of depots:

Army, San Jacinto Ordnance Depot, Tex. (disposal) 512,000 square feet.

Marine Corps, forwarding annex, Islais Creek, Calif., 444,000 square feet.

Air Force, Montgomery Air Force Station, Ala., 1,140,000 square feet.

Slack Air Force Station, La., 570,000 square feet.

Baton Rouge Air Force Station, La., 988,000 square feet.

1962 Gadsden Air Force Depot, Ala., 1,551,000 square feet.

Memphis Air Force Depot, Tenn., 1,913,000 square feet.

Shelby Air Force Depot, Ohio, 4,674,000 square feet.

Topeka Air Force Depot, Kans., 3,203,000 square feet.

Prairie Vehicle Storage, Miss., 1,643,000 square feet.

Do the figures not seem to indicate that the depots never should have been constructed.

Mr. STAATS. Are these all cases of vacant or excesses?

The CHAIRMAN. No, these are depot inactivations, scheduled for 1960 and 1962.

Mr. STAATS. I think Mr. Schaub here can comment on this point, Mr. Chairman.

Mr. SCHAUB. You are talking on a subject which we have been crusading on for a number of years, to get deactivated and disposed of some of the stations and posts and installations which we feel are no longer essential to the military requirements.

As you probably well know, that is a most difficult decision to make because you have to determine that an installation is no longer needed, you have to provide answers to all of the people who are employed at that installation; you have to provide answers for the Members of the Congress for their constituents and you have to be able to stand up and make sure that your decision is right.

The CHAIRMAN. Seven of these are Air Force stations. Do you have any information as to when these were activated originally?

Mr. SCHAUB. No, I do not.

The CHAIRMAN. We will submit the list to you and ask to have that supplied for the record. The only question I want to raise is, is not this evidence that these depots should not have been constructed in the first place.

(The following was later submitted for the record:)

Dates on which Air Force installations were activated

<i>Installation</i>	<i>Date</i>
Montgomery Air Force Station, Ala.....	1944.
Slack Air Force Station, Shreveport, La.....	Originally was Army installation. Some construction as early as 1942. Transferred to Air Force in 1948.
Baton Rouge Air Force Station, La.....	1942.
Gadsden Air Force Depot, Ala.....	1943.
Mallory Air Force Station, Memphis, Tenn.	1943.
Wilkins Air Force Depot, Shelby, Ohio.....	1943.
Topeka Air Force Depot, Kans.....	1943.

Mr. SCHAUB. That is pretty difficult to answer for this reason:

Most of these stations, the construction is geared to a requirement as the military feel they need today or for the foreseeable future.

It is geared to Air Force construction. The Air Force, of course, took over a lot of former Army installations as part of their picture. They went into a very strong, large program of building up a new service, airfields, in quite a few areas of the country.

The requirements change over a period of time and those stations then become obsolete or unneeded.

Now, the Air Force in our opinion has done a very excellent job of trying to reprogram this problem and use the facilities that they have available. There will be those things that were built, maybe a few years ago, that are not needed now.

The CHAIRMAN. Now, I like to throw out this word of caution about the immediate future. If at least 15 percent of existing storage space is idle and if these stations are being deactivated, what excuse can there be for the inclusion in the current military construction budget of additional warehouses in the continental United States?

Mr. SCHAUB. I don't know. I will have to check that to find out.

The CHAIRMAN. Is not the presumption against additional warehousing space in the current military construction?

Mr. SCHAUB. I would think so, sir.

Representative CURTIS. Might I add there, particularly as you have a program of getting rid of an awful lot of your surplus property which is being warehoused now.

Mr. STAATS. Mr. Chairman, may I make a suggestion here, that in view of the information which you have made available to us here and in the light of the fact that we have currently under review the military construction bill for next year, we would be willing to submit for the record an analysis of this.

It may be in some cases the economics would favor new installations even though deactivating an old one because of the location of it, but this would have to be determined case by case.

(The following is made a part of the record :)

No warehouse construction is planned for depots but the following are planned to serve the local needs of the activities indicated :

Warehousing projects proposed for authorization by the Department of Defense in fiscal year 1961

Army :	Square feet
Walter Reed Army Medical Center, D.C.....	80,000
Fort Bragg, N.C. (9 separate storerooms).....	23,400
Fort Allen, P.R.....	8,000
Navy : Naval Air Station, Lemoore, Calif.....	40,500
Air Force :	
Bunker Hill Air Force Base, Ind.....	20,005
Patrick Air Force Base, Fla.....	30,000
Eglin Air Force Base, Fla.....	83,750
Classified location, overseas.....	20,005
Minot Air Force Base, N. Dak.....	21,000
Andrews Air Force Base, Md.....	00,000
Columbus Air Force Base, Miss.....	20,000
Dow Air Force Base, Maine.....	41,105
Various locations (11 small warehouses).....	47,501
Total.....	447,120

The above warehousing is needed for the normal operations at the individual stations listed and represents specific requirements for their assigned missions. As will be noted these are comparatively small units of warehousing, whereas the surplus warehousing in the general depot system of the Department of Defense are generally large units which will not meet such specific requirements in terms of location or economies of operation.

SURPLUS DISPOSAL OF NEW AND UNUSED MATERIAL

The CHAIRMAN. Has the Bureau of the Budget given any attention to the fact that property which is declared to be surplus is frequently new and unused?

Mr. STAATS. Yes.

The CHAIRMAN. You are undoubtedly aware of this monthly catalog issued by the Department of Defense, Excess Personal Property, which comes out monthly.

Each monthly volume comprises about 250 pages, each page has about 120 items, so that there will be issued 30,000 items, roughly, monthly.

While this conversation has been going on, I have been picking this book up and looking at pages at random. Here is page 117 of the index for the current month, January 1960. The code numbers of N-1, N-2 mean new or unused, excellent condition or in good condition.

Running my eye down over the page I would say that all except 8 or nine of the 120 items are coded as either N-1 or N-2; therefore, new or unused.

Now, I choose at random another page. Here on this other page I find very few N-1's or N-2's.

I pick up page 44 and every item on page 44 is either coded, so far as its condition is concerned, N-1 or N-2.

In so many cases these seem to be items which will be needed for a period of time. The question naturally presents itself, Couldn't the Department of Defense use these items instead of declaring them surplus?

Isn't there a too hasty declaration of surplus?

In Congressman Curtis' phrase, aren't they throwing a lot of good stuff in the garbage can, which could be conserved or used and is there any evidence that at the time these items are being declared surplus other items of substantial nature are being purchased in the open market the purchase of which could be dispensed with if there were a better utilization of existing equipment?

Now, I was not a great admirer of Calvin Coolidge but one phrase he used I think is pretty good advice for families to follow and pretty good advice for a nation to follow: "Use it up, wear it out, make it do."

Mr. STAATS. Or do without.

The CHAIRMAN. No, I am not saying do without.

Mr. STAATS. I think that was the rest of his phrase. If I might make a general comment on this and the specialists in this field would have to add what I say. Mr. Mullins, I know, knows more than I do about it.

But there are three general types of situation which bring about this overbuying or obsolescence that you refer to. One is the case where just because of human error there is just plain too much. Somebody made the wrong estimate.

The CHAIRMAN. Isn't there a bias in government service and in the Defense Department toward overbuying? That is in the normal statistical error there will be as much underbuying or overbuying.

But isn't there a persistent bias in favor of overbuying?

Mr. STAATS. Without saying I agree or disagree, with that, I would like to say we would have to add in two other types of situations. One is where you do have lack of common specifications, where one agency buys on slightly different specifications than another. In this area I think we are making some very good progress in the Department of Defense. The third type of situation is where items really become obsolete, that is where it no longer is really economic.

The CHAIRMAN. I picked out the N-1 and N-2 items which are declared to be in good condition.

They are not airplanes, these are not missiles. They are handsaws, they are hammers.

Mr. STAATS. There is a very good program for use of these materials by the other agencies. The steps I mentioned here today of removing the requirement for reimbursement is going to be helpful.

The CHAIRMAN. Mr. Hangen, a very fine public official, testified yesterday that the value of the transfers amounted to about 6 percent of acquisition cost.

Mr. STAATS. I am not familiar with that figure.

Representative CURTIS. That is high, 6 percent. There is a 2 percent on disposal.

The CHAIRMAN. That is sale by the Government. He was speaking of interdepartmental transfers.

Subject to check, I think that was his percentage.

Mr. STAATS. Is this supposed to be 6 percent of acquisition cost?

The CHAIRMAN. Yes.

Mr. STAATS. I am not familiar with that figure.

But I would like to say this, that after there has been a determination of need by all the agencies and after the donation program has been accomplished, in many cases we are still money ahead to dispose

of supplies than we would be to continue to warehouse it indefinitely, which requires manpower and warehouse space.

The CHAIRMAN. My point is, is there not a lot of material which is scrapped, which is thrown into the garbage pail which could be used up with a corresponding reduction in the volume of current purchases and an attendant saving to the taxpayers?

Now I believe in more combat strength. One of my criticisms of this administration has been the feeling that our capacity to repel limited, geographical accounts of aggression has been unduly restricted.

I feel I know something about that and I feel I am correct in that. I do not approve of the cut in the combat strength of the Marine Corps or the Army. I am not thoroughly acquainted with the missile program, but I am inclined to believe that in the actual construction of missiles we should speed up there, too. But I believe that we should sweat out of the waste in the Army just as much as we can, in order to transfer these funds to actual combat functions; in other words, that we should eliminate the fat in order that we may get more muscle.

Unlike Congressman Whitten, I do not think I would decrease the total appropriations for the Department of Defense, but I would have a better system of priority within the Department of Defense.

If the need for more national defense, for greater capacity to repel limited acts of aggression, is to be piled on top of all the existing waste, then the burden does become staggering.

Mr. STAATS. Mr. Chairman, I would like to ask Mr. Mullins here if he would comment on that.

The CHAIRMAN. Certainly.

Mr. STAATS. I would call attention to the fact that we are making some progress in this field even though we may have a good distance to go yet.

In the table which I have presented here this morning, part of the thought was to show you that we have drawn down these revolving and management funds in an effort to put as much pressure on the use of the existing equipment as we can.

CAN'T UNDERSTAND WHY SOME PROPERTY IS DECLARED SURPLUS

Mr. MULLINS. I would like to say first that I, too, have looked at these lists as you mentioned and, in addition to that, I have gone into the field and examined some of the property. I do not see how anyone can see some of that property without wondering how we got it, how it happened.

The CHAIRMAN. You mean how it was originally acquired?

Mr. MULLINS. How it was originally acquired and why it is being declared excess.

The CHAIRMAN. That is the second point that is very significant.

You cannot understand why it is being declared excess at the present moment.

Mr. MULLINS. I mean you will see things like window glass, for example, about as common as anything you could imagine. This is one of the reasons why I have been saying for quite a while that I considered this excess and surplus property problem about the biggest administrative problem in the Government right now.

The CHAIRMAN. I have felt that and Congressman Curtis has felt that for some years.

Mr. MULLINS. Now, to take the first part of the question and go into why we got it, I have found it a little bit frustrating because if you find out that it was caused by a mistake, it usually is a mistake that occurred so long ago that you cannot find out who it was or how it came about. It is a hard thing to nail the responsibility down. This not only is a problem for the Bureau of the Budget; it is a hard thing for the agency itself to get hold of it by that handle.

The CHAIRMAN. I am never so much concerned in pilloring people for past mistakes, may I say, because we all learn. But I am anxious to prevent present and future mistakes.

I am shocked as I go over these monthly indexes, as you have been from your field inspection, to find these items declared surplus when they are either new, or unused, in excellent or in good condition.

Mr. MULLINS. In response to the second point that I think you made; namely, why do we not hold onto it now that we have it, admitting that there may have been a mistake or a change in program. Anyway we have it, now why are we getting rid of it? I believe that was your second question.

The CHAIRMAN. Yes.

Mr. MULLINS. I think my advice would be to put that question right alongside of another question and that is the other side of the coin; why are we hanging on to some of it, so long?

Because both types of things can happen. I am thinking of an unwillingness or a slowness in agencies to recognize that we do have too much of an item with the result that we spend too much for warehousing, too much for taking care of it, and it gets shopworn. In that connection, one of the problems we run into is the fact that a lot of the stuff that is classed as N-1, if you get out and see, it is not really N-1 at all. For example, a case came to my attention just the day before yesterday, from Mr. Bean in GSA, in which there were several thousand rolls of friction tape reported excess and described as N-1. But the tape was 8 years old and it would not stick to anything. It is true nobody used it before. It was new in that sense, but it wasn't new in the sense of fulfilling the needs of anyone who would have a requirement for friction tape.

Representative CURTIS. On that particular point, that point that it had been sitting around for 8 years, would also suggest some error in the supply system some other place, probably in the very beginning in buying that much, but in buying quantity you have to think in terms of when will it wear out.

I remember down in the Atlanta General Depot we ran into warehouse space filled with dry cell batteries. They were all N-1 but there were thousands of them all deteriorated. They could not have possibly been used at the time of procurement or any other time before deterioration. I just throw that in.

Mr. MULLINS. Yes.

THE BUREAU IS TRYING TO GET TO THE ROOT CAUSE

My attitude on that point would be that it is a question which should be looked into but you should not draw conclusions to that. There might be another explanation.

The CHAIRMAN. Have you looked into the question as to whether at the time these items are being disposed of there is a simultaneous purchase of substantially similar items?

Mr. MULLINS. As mentioned in the statement which Mr. Staats made, one of the things that we are doing is to determine how

frequently material is purchased when it could be obtained from excess—let me say this—ever since I can remember it has been possible to find horrible examples. It is not difficult to find them and not just in Defense. This is a general problem and it goes beyond the Government. You can go into business and find such examples too.

The CHAIRMAN. I understand.

Mr. MULLINS. So the question is not whether the horrible example occurred, but how often did it occur? Is it an isolated thing? Is it something that you should say, "Well, if I had been in that situation I would slip up, too," or is it something you should really point the finger at and try to get some administrative improvement on?

The CHAIRMAN. Have you formed any conclusion?

GOVERNMENT BUYING AND SELLING

Mr. MULLINS. I want to tell you what the approach is that we are taking. We have attempted to select from the same kind of lists that you are citing here a number of items which are selected, by the same mental process that you have used, things that you would almost be sure had a general use all through the Government and which are available in excess—and we want to find out what the procurement experience has been during the time these items were available from excess. Did they go out and buy the item at the time when it was available from excess? If they did, why? Because there are some legitimate reasons why this can occur. I really hope that by this analysis we will for the first time have a hold on this problem that will give us some definitive idea of how prevalent it is and what the reasons are for it.

One of the things that I have found in tracing back some of these cases in the past has been that when you find the item that was purchased, you find it was not purchased at the same time that the property was available from excess; it was a week or two later. There was a time gap and under the current plan for disposal of excess, it only allows a relatively short time for screening. If a purchase is made after that, given the system that we now have, no one made a mistake even though the result was as you described it.

So I would say we certainly need to get at the bottom of that problem to find out to what extent there is procurement in place of using excess. But I think that equally important is the other point I mentioned: the importance of declaring excess fast, too. Delay is just as bad an error and, if anything, more prevalent than excessive speed in reporting excess.

The CHAIRMAN. With 30,000 items, it is obviously impossible for this committee to conduct the study that you suggest.

I asked Mr. Ward to turn the catalog to hammers. I find an item of hydraulic hammer which would cost \$5,000 and which perhaps might be excess. Here are two types of hammers, G-25120-241-3575, manufactured by Anderson & Co., unit cost of \$1.85.

That would not seem to me to be a very esoteric hammer, but the ordinary type of hand hammer. It is marked "N-2," which means it is new or unused in good condition, 209 quantity declared surplus.

Now here is another hammer, Z-5120-608-558, cooper barrel hammer, cost \$5. That is a little bit more ritzy hammer. It is marked "N-2" and 440 are declared surplus.

Now I would think that hammers would be used by the military services and it would not be necessary to purchase a large number of new hammers as long as these were in surplus.

There are all kinds of wrenches, nearly all of them marked "N-1" or "N-2." Those are being declared surplus.

There are two pages of bolts, in large quantities.

Gaskets, nuts, pins, rings, screws, springs, washers. Lumber is declared surplus, some N-2's, in quite large quantities.

You mentioned glass. Here is a group of N-2's, quantities 275 individual pieces, 86 individual pieces, 791 individual pieces, 104 individual pieces, all marked "N-2."

Sheet glass, double strength, N-2, 580 units.

Windows, a number of transmitters, doughnut racks, dishwashing machines. Think what a great labor-saving device dishwashing machines would be and could release the services of recruits for drill.

Mr. MULLINS. Were there any excess Dispose-Alls?

The CHAIRMAN. Dishwashing machine, 20 of them. A doughnut machine. That dishwashing machine, 20 units, is N-1, never used.

Food mixing machines, pans, adding machines. Those are somewhat used. Typewriters, some are used.

Here is a stencil-cutting machine, N-1, on page 246.

There is great need for stencil-cutting in order to distribute the paperwork.

Ink—goodness, the military certainly needs ink. This has become almost a combat material.

Mr. STAATS. Red ink?

The CHAIRMAN. N-2, N-1, N-1, ink, paper.

How could we conduct the affairs of the Defense Department without paper? There are large quantities of it. On paper I do not think it has to be immaculate, I think here could be a stain or two on the paper. It should not be declared surplus if there is a slight blemish on the purity of its whiteness.

Tape, I do not know whether this is redtape or not, but certainly there will be an unlimited need for tape. Yet this is being characterized as service.

A French horn, a saxophone, this is a great military weapon. Organs, 14 organs. That raises some very real questions about the original acquisition.

What is a stroboscope? There are 66 of those. Can any musician in the audience inform me what a stroboscope is?

Accordions.

(Off the record.)

The CHAIRMAN. Boxing gloves, backgammon, and checker sets. Here is a trainer bicycle, originally acquired at a cost of \$200, now declared surplus.

Scrubbing machines, gas-driven. Vacuum cleaners.

Then certainly a lot of raw materials. Linseed oil, 825 gallons. Large quantities of paint. Large quantities of paste. Quite a quantity of shellac.

Titanium dioxice, 16,381 pounds.

Boxes, cylinders, cotton cloth which we have referred to before. I read yesterday some of the lists on clothing. Rubber, one item, 21,826 feet, No. 2 condition. Another, 25,822 feet, No. 2 condition.

SURPLUS PROPERTY—MOST NEGLECTED JOB IN THE GOVERNMENT

Now I am just a U.S. Senator, Mr. Staats, and Congressman Curtis a Congressman. We really have a lot of things to do. We cannot spend that time scrutinizing these lists, but I would think you would scrutinize the list and make up your mind as to whether some of these should be disposed of or whether the services should not use them up, wear them out, make them do, and cut down the volume of current purchases.

In my judgment you could save billions of dollars. It is the biggest task in the Government and the most neglected task in the Government.

Mr. STAATS. Mr. Chairman, if you would like me to respond?

The CHAIRMAN. Certainly. I only indulge in temporary monologs.

Mr. STAATS. I would say that the record will show there have been a number of moves made in last year to promote better utilization of this equipment.

I think you may or may not be familiar with the program worked out with the GSA to reduce the time taken to circulate the agencies on these items you referred to here.

A year ago, as I recall, the time ran something like 244 days to complete the process required, some of it by law, to circulate all the agencies who had possible requirement in this field. This is being reduced substantially.

There is a good deal more than needs to be done. I think a list of this type is perhaps misleading in the sense that it does not indicate where these items are. It may cost you more to transport it across country than it would to buy the new item the other side of the country.

The CHAIRMAN. It does list the State in which they are located. That is the first column.

Mr. STAATS. The only point I would like to make is this—

The CHAIRMAN. The code numbers are given?

Mr. STAATS. Right.

I would make this point: We all agree there is a problem here. We are all working hard on it. I think the cooperation of this committee will be very useful to us in this respect. But I think we ought to look at this on a case-by-case basis rather than a generalized approach to it.

The CHAIRMAN. You are saying you cannot discuss the thing generally without specifics. I am trying to supply some of the specifics that you get from a careful examination. So when I talk in general terms, you say you have to talk in specifics. When I talk in specifics, you say I have to talk in general terms.

Mr. STAATS. I think you as an economist would recognize in some of these cases it would not make good sense to use it if you did not need it, and if it is going to cost you more to ship it and transport it than it would to sell it locally, it would be better to dispose of it and then repurchase some place else.

URGENT NEED FOR MORE SINGLE MANAGERS

Representative CURTIS. The point is this: I personally have been in this 10 years in the Congress and the same kind of testimony we are now getting is the same as we had 10 years ago. The review of these lists over a period of years has always pointed to one thing, among others, but certainly in the common supply items, that we need single manager purchase.

I think that is your conclusion.

Mr. STAATS. Well, two were announced in November of last year.

Representative CURTIS. Exactly. It was announced back in 1949, 1952, 1956, and 1960. Here is why I am showing impatience.

We think we know what the answer is and we think we know how to correct it. The Congress has written the law three times saying how to do it. Invariably the Military Establishment, not the civilian leaders because it has been true under previous administrations as well as this, so I pin it back on the military leaders; they have figured out every excuse under the sun for not complying with the law. We are up against the same process now.

I do commend what has been done in the past year and a half. I have followed it a little bit, and I know what you are about to do. I hope that we can continue. But we know what the reasons are that a lot of this surplus is in here.

I agree with your statement, we must recognize that if we think these horrible examples, as they seem to be, as we examine into them many times, there are good reasons for it happening. Sure, it is a mistake, but it is hindsight that tells us it is a mistake. But on the other hand so many of these things we go into, we find that there are no good reasons foresight or hindsight and we certainly fail to profit by our mistakes.

I have heard every excuse, I believe, that an admiral and general can dream up by themselves and with the help of competent staffs as to why these things have existed.

I again say in many instances the excuse and the reason has got validity. But after analyzing all this, we have gone to the idea that single procurement is the way to cope with it. Now, what distresses me, I am glad we are going to single management, but now we are getting a whole series of single managers because each military establishment is insisting on its little empire. This is not real single management. It is parceling and it is subterfuge.

If the Army gets this, why the Navy gets this, and the Air Force gets that. We are going to end up in this thing—I still want us to keep going this way rather than to stand still—but we are going to end up with I do not know how many single managers for how many various items.

I saw the projection on hardware items yesterday where paint goes to the Navy and hand tools to the Army, just so that they can preserve their empires.

Perhaps I can see some reasons, because of a personnel problem, where if the Army has a lot of people trained in supply and the Navy has a lot, it would be a wrong thing to completely shut down a supply operation and lose the trained personnel. But that is not the reason

that I have seen behind this parceling out that is being indulged in. There are ways of satisfactorily handling the personnel problem that I posed.

If I may, let us get to this problem of paint because maybe through that we can see that the same mistakes are going to be repeated.

In the Navy, handling the procurement of paint, is it going to handle distribution also? Are they going to set up a whole set of warehouses and a distributive system for paint which is a common use item, when we already have a civilian distributive system setup?

SINGLE MANAGER PLAN IS A STEP FORWARD

Mr. STAATS. Congressman Curtis, as I pointed out in my statement here, we feel that this movement toward a single manager is a move in the right direction. It may not be the final step in this field, but if you move too fast in this field one thing I think we have to agree on is that it can cost a lot more money if we disrupt the existing supply contracts and existing warehouse arrangements.

FOOT DRAGGING

Representative CURTIS. That is the old, wornout excuse; "we must not move too fast."

I agree that that is a perfectly legitimate comment; you can move too fast, but I regret to say it has been used as an alibi and a method of stopping any movement.

Yes, I do not want to move in such a way that we do not know what we are doing, but I again point out this has been 10 years that I personally have been following this thing. The only movement we seem to get is when the Congressmen or Senators can take time out from a lot of the other things to exert some pressure.

One reason for these hearings, and I hope it may come about, is that maybe if this committee will keep cognizant of this matter and keep pressuring, something will be done.

Look at the history. The Bonner committee did this. The Hoover commission pointed out all of this. But the Bonner committee went out of existence and the Hoover commission went out of existence. All the various Assistant Secretaries and Secretaries, and many of them were interested in doing this, and getting it accomplished, they have gone on.

I have heard military officers say if you get somebody who is going to push us around, just relax, they will be gone in a year or two. And Congress' attention can be diverted.

Here we are concentrating today on it. But we have lots of other things. I guess their hope is that we will be diverted again to something else. It is the continuity that produces the results.

THE BUREAU HAS THE RESPONSIBILITY

The CHAIRMAN. And you are the agency which can provide continuous direction, supervision, and correction.

Representative CURTIS. That is right; that is the Bureau of the Budget.

Mr. STAATS. My purpose in listing these various things we are involved in is to show you our interest in this field. I will assure you in all good faith that we are concerned about many of these problems as you are. We welcome the kind of criticism and airing out of this problem which this committee is providing.

The CHAIRMAN. What studies are you making in the Bureau on this question of the better handling of surplus?

Mr. STAATS. I listed several of them in my statement, Mr. Chairman.

The CHAIRMAN. On procurement.

Are you making studies on single management?

Mr. STAATS. Yes, with respect to the single manager plan, we have been reviewing that problem continuously with Defense. I think they are going to be prepared this afternoon to show you the various areas that they are moving in.

The thing that I would really like to underscore as much as I can here is that this is not something that you do overnight.

Now, I appreciate the fact—

The CHAIRMAN. Ten years is not overnight, Mr. Staats.

Mr. STAATS. Mr. Chairman, I think I have been identified with this problem about as long as anyone, having worked on this during the war, and I took the lead in the development of the Federal Property and Administrative Services Act of 1949.

The CHAIRMAN. Which was canceled by Executive order—

Mr. STAATS. No.

The CHAIRMAN. The vital sections were canceled by Executive order in 1954.

Mr. STAATS. That related only to the procurement on common supply items.

Representative CURTIS. That is one of the biggest areas.

Mr. STAATS. No, sir.

In terms of dollars, the common supply items are relatively small.

The CHAIRMAN. It is one of the fields in which GSA could do the most.

Representative CURTIS. It is one of the fields, I might say, if we really put what are common use items into it, would be the biggest. I would not say the biggest, but one of the biggest, food, clothing.

Mr. STAATS. The single manager plan, four of them were adopted in 1955, as you know; the next step on it was in November 1959.

I hope personally that we will make a lot more progress the next year. Personally I am going to try to see that that happens. That is about all I can say on this point.

Representative CURTIS. Well, I might say that I personally think that in the past year and a half there has been progress made. I am very pleased with what I have heard and we are going to hear this afternoon, I might say, but what disturbs me is the fact that the individuals here will see it, but then time will pass and there will not be continued pressure. I suppose until the leaders in the Military Establishment themselves decide that they want this to go and really stop this business of trying to thwart it, we are going to continue to have this trouble. But maybe we are getting this thing over the hump.

I would like to ask some specific questions, if I may.

ADVERTISED BIDDING VERSUS NEGOTIATED PROCUREMENT

Senator Douglas was pointing out this problem we have in negotiated contracts as opposed to contracts by advertised bid. That relates to this very difficult personnel problem we have of military officers on retirement going into businesses that sell to the Defense Establishment. And I might add, the problem of Assistant Secretaries of the various Defense departments being associated with firms that sell to Defense.

The only reason I point it out is that it is a very delicate problem. The argument that we waste the talents of military people when they retire if they are not in the field in which they are now knowledgeable is a valid one. But it is all the more reason why this problem of advertised bids versus negotiated bids should receive more attention. If it is an advertised bidding it does not matter how close the relationship is between the procuring agency and the seller.

Certainly when you get into negotiated forms, which is a delicate method, this relationship problem becomes quite acute.

I would think that the Bureau of the Budget, in going into these big areas of policy, would be paying attention to that aspect of it, too, in your capacity of advisers to the President.

Would you have any comment on that? I have other points I would like to make.

Mr. STARRS. The only comment I would like to make is that we are giving increased attention to this area and I hope a year from now, if you hold these hearings again, that we will be in a position to show some further progress.

Representative CURTIS. One practical suggestion that I have made to the Military Establishments and others, but which I would like to make here publicly, is this: Take a look at the procurement practices used in building the atomic submarine under Admiral Rickover. There I understand, according to his testimony, the great bulk of the procurement was done through advertised bids, by breaking it down into component parts so that that could be done.

Certainly if that is true of an atomic submarine, the same techniques could be employed in almost any weapon we can conceive of. Even a missile is composed of many things that probably could be procured through advertised bids.

True, your contracting would be through the prime contractor so we really get into the area of insisting that the prime contractor in Government business use this kind of method of procurement.

Mr. STARRS. This is the approach that I was suggesting a few minutes ago.

Representative CURTIS. I know you were.

I was emphasizing it and dwelling on it because I think since 1954 we did have a nice upturn in the percentage of advertised bids. Since then there has been a decline.

Now this committee, of course, cannot be dealing in details. The only reason we mention detail at all is to illustrate or examine into broad policy.

In this thing, one way we can follow it is through the percentages of advertised versus negotiated bids. That figure we can follow.

Now you mention in here that you are working with GSA in relaxing existing policies under which agencies are required to pay for excess property transferred to them. Now I gathered, though, from

your qualifying statement, you are not relaxing it to the extent that you do not have accountability.

Am I correct?

Mr. STAATS. That is correct.

Representative CURRIS. So that we will know that it is going there and the appropriation committees will also know?

Mr. STAATS. We will know it in reviewing the budget and the appropriation committees will be advised as to how much property is transferred.

The difficulty in the past has been that in so many cases if the cost is relatively the same, the agency would go out in the market and buy rather than using the surplus or in some cases they didn't have the money, particularly toward the end of the year when the procurement account is low. The owning agency had to hold it in storage or dispose of it. This plan may not be as successful as we hope it will be; we frankly are going to experiment with it.

We have tried the other for 10 years and we feel that it is worth an experiment.

DIFFERENT STOCK FUND POLICIES

Representative CURRIS. I am very happy about it and hope that this will be done in relation to a reappraisal of the use of stock funds.

Now, we have an interesting development there where the Air Force I think uses stock funding about 3.8 percent and the other three services up in the 90 percent. The Air Force seems to be doing a pretty adequate job.

Now stock funds cost money. The whole theory, as I understood, of a stock fund was for fast-moving items. You apply it to something that is slow moving and there is no sense to it. It is an accounting procedure to a large degree. So this is the kind of thing that I trust you are getting into, too.

Have you gotten into the reevaluation, because we are talking there of maybe \$100 million that we can pick up right now in savings if these stock funds are not being used right and we do not need them.

Mr. STAATS. Mr. Schaub will respond to your question.

Mr. SCHAUB. We have supported stock funds right along, not so much from the standpoint of the buyer-seller relationship as a device to get on top of this inventory problem which we are so concerned about. It has served a very useful purpose in that respect.

If you will bear with me just a minute, I will give you a little summary of the history of this.

The inventory of June 30, 1953, was \$3,897 million.

From July 1, 1953 to June 30, 1959, the net inventory capitalized was \$11,687 million making a total of \$15,584 million that was capitalized initially in the fund.

The inventory as of June 30, 1959, was \$8,362 million, a reduction in the total inventory of \$7,222 million.

Now, the disposition of that so-called long supply is broken down with sales without replacement, donations, losses and disposal of surplus property, price adjustments, and it is estimated that there will be \$3 to \$4 billion in the existing inventory still to be disposed of over requirements.

Now, the inventory of \$9,809,000 is made up of peacetime stock requirement of \$1,737 million. That is the annual operating requirement of this kind of material.

The mobilization reserve stocks are \$2,080 million and long supply of \$8,000 million.

THE BUREAU CAN'T EXPLAIN DIFFERENCES

Representative CURRIS. I wonder if you would address yourself to this apparent difference in the use of stock funds in the Air Force and the other three services?

Mr. SCHAUB. The Air Force has continuously maintained that they can do it through other means.

Representative CURRIS. Have they?

Mr. SCHAUB. They can accomplish this same control over inventories through other means.

Representative CURRIS. The question is, if you evaluate it, have they?

The point is, if they can and are successful, then the other three services can, and we can, save considerable money.

Mr. SCHAUB. It is very difficult to evaluate the Air Force inventories without this kind of device.

Representative CURRIS. In other words, you are saying that the Air Force is mistaken in thinking that they can handle the supply system this way?

What makes them different?

Mr. SCHAUB. That is a difficult question, but we feel that in the kind of machinery that we have in the military services you need a constant surveillance of this kind of problem. Unless you have machinery to provide that constant surveillance which will force the surveillance as the stock fund does, and from an accounting standpoint, then you don't have the continuity of supervision that you need in this problem. For that reason, we support it.

Representative CURRIS. That is the original reason that I did, too. But when I found out that they were putting items in the stock fund that did not seem to make sense to me . . .

Mr. SCHAUB. As to what goes into the stock fund, there is a question, the extent to which it should be expanded. Aircraft spare parts is one that is very controversial.

Representative CURRIS. But we get back to the business of the Air Force. Three percent as opposed to 90 percent, and I think it would be something that the Bureau of the Budget would be interested in.

We are talking in big terms here. If the Air Force system has been successful, and certainly it does not cost what the stock fund does, at least original capitalization, maybe we have made a mistake and maybe the way to go is the way they are doing it. That is why I asked if the Bureau of the Budget had made an evaluation.

I would think that is where the evaluation should be made.

Mr. SCHAUB. Several years ago we went into this in detail. We deal with it in the normal processing of the budget, but not on a systems basis.

Mr. STARRS. We do it in terms of the amount of money required for these stock funds and the amount of inventory and capital to be drawn down. That was the purpose of showing this table here, in part.

Representative CURRIS. Yes, but this is a method of accounting; it is a procedure.

Mr. STAATS. The stock fund principle is a widely accepted method of inventory management.

Representative CURRIS. I appreciate that.

Mr. STAATS. It has worked very well in many places in government. I think your question is as to whether or not it can be improved upon.

Representative CURRIS. No, my question is that the Air Force does not use it; you have a situation where they have got only 3.8 percent usage of it as opposed to the other three services 90 percent.

Why in the name of heaven does it take a Congressman to point that out to the Bureau of the Budget?

Mr. STAATS. We are aware of that, but I am not clear as yet what your question is, whether this is bad or not.

Representative CURRIS. I am not saying this is bad or good. I am asking the question why one service does it one way and claims that they have an efficient system and the services do it another way. We are trying to find efficient systems of doing things. If the Air Force finds that they can do this efficiently without the stock fund, then it would suggest to me that the other three services ought to be doing that or, on the other hand, if they are really kidding themselves and there is not an efficient system, heaven knows the Air Force spends enough money that we ought to be getting them onto the other system.

Mr. STAATS. I was trying to get your views as to whether or not you felt we would necessarily save dollarwise and centwise in one system or the other.

NEED FOR MORE BUREAU DIRECTION

Representative CURRIS. My criticism is right to the Bureau of the Budget on this one, as to why you would not pick up this obvious difference between the three services and knowing, and you have already said that you agree that we have to keep searching in this area to see that we get better systems, that no one has looked at it apparently for 3 or 4 years. Yet you have a situation where one service does not use it and the other three services do.

Now I would think that there is a very fruitful area for evaluation. I do not know what the answer is. I think I do, but I want some experts to examine into it.

I personally think the stock fund, like so many things we have done in this area, sounded good, and basically is good, if it is used for what it was intended but it has been abused; items have been put in it that never should have been in it. It has not been used in the proper way, and from that standpoint--I am now giving personal judgment, not based on a thorough study I would like to make of it--I have concluded in my personal judgment it should be corrected or eliminated. But above all there should be uniformity in the three services on it.

Mr. STAATS. I hope you will go into this with the Defense Department this afternoon on this.

We are very happy to look at it at any point. But I don't think you can necessarily conclude that because one of them uses it to a greater extent than the other, that one is more economical than the other.

Representative CURRIS. One uses 3.8 percent, the others 90 percent. We are talking about procedures.

Mr. STAATS. If you want to extend it to the other agencies, some of them are different, too. I don't see what conclusion you can draw from it.

Representative CURTIS. I am very disappointed if you do not, but I am not going to argue about it. I think it is a very obvious conclusion.

I am very worried if you cannot see what I am driving at there. I do not know how we are going to get on top of these things if we do not pick up these areas where we see large differences like this one and ask the logical question of why. When we are searching for a more correct system these are the leads we must follow.

If the Air Force says that their handling of this is efficient and does an adequate job, then the arguments in behalf of the stock funds, that it is necessary procedure, as presented here, will fall by the wayside.

AIR FORCE RELUCTANT TO ADOPT STOCK FUNDS

Mr. SCHAUB. We have supported the Comptroller's Office of the Secretary of Defense to try to get the Air Force to adopt this procedure. The Air Force has not seen fit to do it.

Representative CURTIS. What reasons do they give?

That becomes an important question.

Mr. SCHAUB. That their present system is adequate and it is not necessary.

Representative CURTIS. So I ask the Bureau of the Budget, with your group of very splendid accountants in this business, whether the Air Force is doing a good job?

Mr. SCHAUB. When we looked at it 2 or 3 years ago we felt strongly that some mechanism similar to the stock fund to identify at least segments of the inventory to get it under administrative control was necessary.

Representative CURTIS. You have just repeated your thesis.

I am asking for the test of your thesis by a specific example of the Air Force supply system.

Let me go on if I may to a couple of other areas.

One, this question of capital investment by the Military Establishment. The effects come about in various ways, but how does the Bureau of the Budget distinguish between what might be determined a capital investment as opposed to a usable item?

I will illustrate. In St. Louis, Mo., we have one of the biggest optical shops in the world, one run by the U.S. Army, I think it still is, for grinding lenses. I was curious to find out how they acquired this very valuable machinery necessary to do the job.

The individual machines probably cost \$100,000, or at least they are very costly. The Army officials said, "Well, it came through the maintenance and operation area of the budget."

I said, "Well, do you capitalize it so that when that machinery wears out you can ask for replacement and also account for it as a cost item involved in the running of the optical shop?"

They said, "Oh, no, when it wears out we simply get a new one and it is an expendable item."

Does the Bureau of the Budget attempt to break down that kind of capital expenditure that is included in the military budget?

Mr. SCHAUH. I don't know.

COMMERCIAL TYPE OPERATIONS

Representative CURTIS. There is much significance to it. That is one way in which the military has been able to move into fields of private enterprise without the Congress realizing it.

Take, for example, optical grinding lenses. Heavens, we have a tremendous civilian optical industry. Yet the military has gone in and duplicated it, competing with the civilian economy, including, I might say, for the technicians to do exactly the same work. But there is no way of following this thing unless the items are capitalized.

The dental laboratories the military has established. The Small Business Committee several years ago listed and the Hoover Commission listed over a thousand various fields of endeavor that the military have gone into which are civilian type.

The only way they can get in there is to buy the capital equipment in the way of machinery: in order to set up a tire retreading shop, in order to set up an overhaul shop of civilian type automobiles and all of these thousand other manufacturing, repairing, and servicing activities.

So the question is, Has the Bureau of the Budget tried to look into the budgets of the military to pick out these capital items so that we will know when they start going into some of these businesses?

In some instances, I think the military moving into some of these areas is probably justified and necessary, but at least we should know about it and Congress should.

Mr. SCHAUH. To the extent we can, Congressman, we get into the industrial facility, which is what you are talking about.

Representative CURTIS. It could be an industrial facility; it could be in the distribution area.

One of the biggest things about America's economy, production has been heralded all the world round, but the distributive system is equally amazing in America. The military can and have duplicated many phases of the distributive system, too. That in my judgment is one of the main areas where the military has been spending unnecessary dollars, in duplicating the distributive system, the service fields as well as manufacturing.

So the item of the warehouse space becomes important because if the military services are going into distribution, of course they have to have warehouses. That becomes another way of testing out whether they are moving into areas of economic endeavor where we have the system already set up in the private sector of our economy.

So the question to the Bureau of the Budget is: What check points do you use? You mentioned that you do check it as far as industrial; do you call them industrial items?

Mr. SCHAUH. Industrial facilities.

Representative CURTIS. Does that include machinery?

Mr. SCHAUH. No; not unless it is heavy machinery sometimes.

Representative CURTIS. You are, of course, familiar in private enterprise with what is a depreciable item; in other words, a tool, a piece of machinery of that sort. Naturally handtools, you do not. Those

are expendable. But has there been any attempt to try to get the accounting system of the military set up so that we can distinguish between what we would term capital and expendable items in the business world?

Mr. SCHAUB. There is a great deal of work going on in the accounting area now to develop a cost system. Some progress is being made and more will be made in the next year, I am sure.

Mr. STAATS. We have now with the General Accounting Office and the Department of Defense a task group in the Defense Department which has been working in this area. I would like to suggest that we put something in the record here on this.

As a result of efforts to strengthen control in this area, the Department of Defense issued its directive 7040.1 on May 20, 1959. That directive contains the following provision which relates to the matter being discussed:

"2. The 'Operation and maintenance' appropriation of each military department should include only the costs of operation and maintenance programs. The operation and maintenance area should be defined consistently for each military department. More specifically, the programs should be determined as follows:

"(a) These programs should include all activities and functions in operating, training, and maintaining the military forces, and in general administration of the departments.

"(b) Costs of programs identified as research and development and capital programs (acquisition and construction of real property, and procurement and production of materiel of a capital type) should be excluded from the 'Operation and maintenance' appropriation.

3. To the extent it may be impracticable to finance all costs of operation and maintenance programs under the appropriations, for that purpose, cost-based budgets for the operation and maintenance programs should still include these costs and disclose the amounts financed under each other appropriation."

Representative CURTIS. In this area of trying to test out what is-----

Mr. STAATS. This is involved in it. This is one of the problems: What is the dollar cutoff on a depreciable or capital item?

Representative CURTIS. There are some real problems.

Mr. STAATS. I think that the GAO has not found the answer to this either. There are some studies going on right now, though, I will be happy to put something in the record on it.

Representative CURTIS. Let us not take the areas that are close questions, but we could take the areas where there is little question such as heavy machinery.

Would you in the Bureau of the Budget be able to pick those items out?

Is there any requirement that these budgets be set up so that what is unquestionably a capital expenditure is listed as a capital expenditure instead of hidden under maintenance?

Mr. STAATS. Of course they do have capital account.

What I am referring to now is how this is defined.

Representative CURTIS. The discoveries were made several years ago of the thousands of areas of private enterprise the military had moved into that is why I prefaced my remarks that the Army apparently did not require these items to be capitalized. I do not know that they do today require that this kind of equipment be capitalized.

Mr. SCHAUB. We do not talk about it in those terms. Capital equipment and facilities come in two areas in the military, in the procurement accounts and in the construction account. Some of it comes

in the research and development and they are related to specific line item programs or items. Within those programs you may have a facility requirement or a tool requirement. It breaks down in those terms, but not as capital services-----

Representative CURRIS. I think it becomes important that that be done from a capital standpoint just for some of the reasons that I mentioned here.

CONTRACTS REQUIRING NO RISK CAPITAL

Now, one other area that I just wondered whether the Bureau of the Budget has done anything. Referring back to the Renegotiations Act, testimony was presented before us which showed that--I have forgotten the exact percentages and, I would like to have them corrected, but as I recall it, about 70 percent of the capital for the airframe industries was from the Federal Government. The argument was used that because of this the return to the private enterprise company should be limited, based upon the amount of capital they put in. So I posed the question to our governmental people, 10 years from now did we anticipate the Federal Government providing 70 percent of the capital or did we have the idea of somewhere stimulating private capital to get into this area to replace Government capital?

That is a very important point because the Renegotiation Board argued you could not get private capital to come in because it was too risky. Then I asked the question of the Board Chairman, you have been saying they are making too much money; if you are going to get risk capital you have to give them an opportunity of getting a return or else they will not risk it. What is your criteria for "too much" return for risk capital of this sort?

But the point I want to come back to, we are now talking probably of billions of dollars, I do not know how many, of funds that the military have advanced in the way of capital investment for this procurement program that they have to have for their very heavy weapons.

Now, has the Bureau of the Budget ever approached this problem from the standpoint that I have presented, of how do we get private capital into those areas or even, once the military does put up the capital, of phasing out the Government capital that goes in and replacing it with private funds?

Have you ever gone into that subject?

Mr. STAATS. No, sir; not to the best of my knowledge.

I think you might want to address that question to Mr. McGuire this afternoon. I think you put your finger on the problem, that is the question of risk capital in an industry whose output is almost entirely governmental and which is so dependent on governmental requirements.

Representative CURRIS. It is a very, very fundamental policy question and I would not attempt to say what I thought the policy should be, but I was distressed to find that people were not even addressing themselves to the policy.

Now, the Joint Economic Committee in my judgment has to be concerned about this because it is very important whether or not our military programs are Government or privately financed.

Do we intend to have Government capital, Federal capital go in and remain in, or whether or not there should not be a program of phasing out, I do not know. I hardly think that the Military Establishment itself is the one to make that determination because their primary concern must be to get the equipment, or whatever it is that they need. They do not have the problem of evaluating the impact on our economy and future developments in our economy, although I know they realize that what they do is so large that it has this impact. But I do not think it would be fair to them to put the burden on them to make that decision.

So it comes back to civilian government--and where else in Government should the coordination come other than in possibly the Bureau of the Budget in advising the President.

One other subject--there is a technique on disposal of surplus goods which are in such vast quantities that it frequently can effect a saving to the economy. The Department of Commerce has a responsibility to--in fact, I think they can request disposition be phased out, of the surplus, so that it will not have too much of an impact on the economy.

Possibly the Department of Commerce is the one that might evaluate the point that I am presenting, but the question to you is, Could not the Bureau of the Budget be of some help in evaluating this?

Mr. STAATS. Mr. Curtis, I think it is quite possible that the Bureau could take the lead on this. I think this would be an area where we would really want to have, though, the participation of the Treasury Department and the Commerce Department who are very much concerned, and of course the Defense Department, and possibly the Council of Economic Advisers. This is not a problem which is limited to the aircraft industry as you know, although it is probably just as acute there as anywhere else.

Representative CURTIS. It became acute in the aircraft industry.

These are the questions I asked in considering the request to extend the Renegotiation Act. I strongly advised against extending renegotiations for the very reason, among many other reasons, that I thought our policy should be to phase Government capital out if we could on a reasonable basis, but I was distressed to not have anyone even thinking along the lines or trying to analyze the problem. It was put on an almost grammar school level, by the Chairman of the Renegotiations Board, that anyone who did not want to extend the Renegotiations Act wanted to allow a lot of people to have excess profits. This was ridiculous. I certainly do not want to do that, nor does any responsible public servant.

But the Renegotiation Act is a device that we have in military procurement and is involved in the overall policy--a very fundamental policy.

PROFITS ON CAPITAL SUPPLIED BY THE GOVERNMENT

Mr. STAATS. One of the issues you touched on is how much of the retained earnings are permitted for these companies in view of the fact that so much of their capital is supplied by the Government.

Representative CURTIS. That is correct.

It is a question of whether we do want this process to be that it is Federal capital just operated by private enterprise.

On the other hand—and it is my suggestion, that it is unnecessary—we could get risk capital into this area; we would be better off to have it in and in the long run we probably would procure at a lower cost.

I can say this would certainly broaden the tax base, which I am always interested in. Every time the Government does these things or furnishes the capital, it does not become part of the tax base.

Well, you have been very patient. We really just sort of scratched the surface of these problems.

I hope that this committee will continue in this area and possibly we can define the areas where we think, at least in this committee's eyes, the Bureau of the Budget can function in trying to get on top of and keep on top of the problem.

Thank you very much.

Mr. STAATS. Thank you very much.

Representative CURTIS. The committee will stand adjourned until 2 o'clock.

(Thereupon, at 1:15 p.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. Our next witness will be the Honorable Perkins McGuire, who is Assistant Secretary of Defense for Logistics.

Mr. McGuire, we are very happy to have you with us and we look forward to your testimony. We know you have had broad experience in the supply management field both in industry and in Government. I looked over your statement, which is quite long, 24 pages, and which seems to be primarily descriptive. I wonder if it would be satisfactory to you if we print the entire statement in the record at this point, and then you could make a brief summary of it, together with such other comments as you wish to make with the understanding that of course you will be given the opportunity to correct your oral testimony.

I do think in order that we may get to the nub of the matter as quickly as possible with the minimum of time taken for pure description.

STATEMENT OF E. PERKINS MCGUIRE, ASSISTANT SECRETARY OF DEFENSE (SUPPLY AND LOGISTICS), ACCOMPANIED BY A. C. BANNERMAN, DIRECTOR OF PROCUREMENT POLICY, OASD (S. & L.); PAUL H. RILEY, DIRECTOR OF SUPPLY MANAGEMENT POLICY, OASD (S. & L.); ROBERT C. MOOT, OASD (S. & L.); AND COL. J. R. DeLUCA, ARMED FORCES SUPPLY SUPPORT CENTER

Mr. MCGUIRE. I think that is fine, Senator.

(Mr. McGuire's prepared paper follows:)

STATEMENT OF THE ASSISTANT SECRETARY OF DEFENSE (SUPPLY AND LOGISTICS)

Mr. Chairman and members of the committee, I appreciate the committee's interest in the supply and service programs which are under the policy guidance of the Office of the Assistant Secretary of Defense (Supply and Logistics).

We who are associated with defense logistics believe that significant advances have been made in defense policies and management techniques.

I will endeavor to outline our progress and achievements in this area and I have with me today members of the OSD staff to assist in responding to any specific questions you may have.

INVENTORY MANAGEMENT

I would like to start with the area of inventory management. Inventory management policies and programs of the Department of Defense are designed to increase the effectiveness of the military supply systems and at the same time eliminate unnecessary inventory and supply operating costs.

We believe we are achieving this dual objective of effectiveness and economy by progressively integrating logistics operations throughout the Department.

In achieving these objectives, certain policies have been established upon which our inventory management programs are based. These are followed wherever it is determined that more effective supply support, less total inventory, and no increase in supply operating costs will result.

Specifically, these policies are:

(a) Inventories held by the separate military services are considered assets of the Department of Defense. When these inventories are held in quantities above essential requirement levels of the individual services, they will be utilized in lieu of new procurement when and where a valid need exists anywhere in the Department.

(b) Single service management techniques or the General Services Administration are to be used for like groupings of items which are in widespread use among the services.

(c) Single service distribution of material for support of all users is to be applied in any geographical area where concentration of defense activities warrants.

(d) Advanced principles for requirements determination and advanced techniques for communication and data processing will be applied to logistics operations.

(e) In recognition of the fact that policies alone cannot achieve our objectives, we are continuing our efforts to the development of common identifications, improved supply procedures, simplification of common commercial items, and standardization of technical items.

Based on these policies, the Department of Defense has taken steps over the past several years which we believe have achieved positive results.

If you have no objection, Mr. Chairman, I will submit for the record a list of these factual accomplishments.

In order that the committee can view our progress in proper perspective, I would like to summarize for you our findings after analysis of our overall DOD activity and workload indices during fiscal year 1955 through fiscal year 1959.

These indices show workload increases during this period ranging from 10 percent to 23 percent. At the same time, supply system operating costs increased only 11 percent and supply systems inventory decreased 8 percent in the same period.

In the past 2 years inventories have been reduced by \$7.3 billion. Most important of all is the fact that our interservice and interagency utilization of material assets in lieu of new procurement has risen from \$721 million in fiscal year 1958 to a current rate of \$1.3 billion annually. We believe that this is concrete evidence of increased efficiency in our screening and utilization activity. In addition, there are inventory reductions due to single manager operations which likewise offset procurement. Other reductions resulting from disposal of obsolete material and material which is no longer economical to repair, has had a very healthy effect on our inventory posture.

COMMODITY SINGLE MANAGERS

About 3 years have passed since commodity single managers were established within the Department of Defense.

As you know, we have single-manager assignments for subsistence, medical supplies, clothing and textiles, and petroleum.

A comprehensive analysis of the single-manager concept was completed in June 1959. This review was undertaken to arrive at definite conclusions concerning the efficiency of this concept for sustained performance during times of peace and war.

The analysis revealed that significant economies have been achieved. These economies arise from—

the elimination of concurrent buying and selling;
 reduction of crosshauls and backhauls through integrated distribution operations;
 payroll reductions;
 more economical procurement operations; and
 the stimulation of item reduction and standardization programs.

It was also determined that the systems are providing effective supply support and that the customers approved of the system and the support provided through the systems.

Finally, it was confirmed that the concept would be workable during peace or war.

Our estimates indicate savings as of June 30, 1959, in the area of the four commodity single managers amounted to—

1. An estimated one-time savings of \$239 million resulting primarily from reduced inventory, and
2. An annual savings in personnel, storage, transportation, standardization, and inspection at the rate of about \$12 million each year.

I wish to stress that these are only the identifiable savings. We feel that the nonidentifiable savings, such as decreased backhaul, elimination of competition among several military agencies in procurement, and bulk-lot procurement prices, would far exceed those we have been able to identify and document.

Two new single managers have been designated. These are:

- Military General Supply Agency (Army).
- Military Industrial Supply Agency (Navy).

They will become progressively operational and in complete operation no later than July 1, 1961.

In addition, we have established a requirement on the Armed Forces Supply Support Center and the military departments to review and submit recommendations on single managership for general use items in the categories of construction supplies and automotive supplies. Special attention is being given to expedite accomplishment of the review which will permit a decision with respect to the future management of these categories of supply items. The review will be completed by early spring of this year.

COORDINATED PROCUREMENT PROGRAM

Under the DOD coordinated procurement program we presently have 64 plant assignments and 39 commodity assignments through which we coordinate the procurement of items in the majority of the Federal supply classes which comprise the DOD system.

Under these assignments, one Department serves as the procuring agency for all other Departments. Although this procurement arrangement is less comprehensive than the single manager plan, it nevertheless is an important part of our total effort to integrate logistics functions.

During the past year, we have devoted considerable time and effort toward reenergizing and improving the scope and efficiency of this program. We have created new single department procurement assignments for electronic equipment, on a parent-user basis, and for common electron tubes. In addition we are broadening certain existing procurement assignments by agreement with the military departments to make several Federal supply classes of material complete rather than partial assignments and thereby increase the consolidated procurement potential.

SURPLUS DISPOSAL

The value of military equipment in use which must be supported through our logistics systems as of June 30, 1959, amounted to \$63.6 billion. This figure represents the acquisition cost of our capital equipment including ships, aircraft, combat vehicles, trucks, tractors, and major operating equipment of all types.

Over a period of time, this capital equipment either wears out from use or becomes obsolescent due to technological advances. No one can predict at what rate obsolescence will take place for military equipment. On the other hand, we do have prescribed methods to determine when commercial-type operating equipment should be disposed of as no longer economical to repair. This combination of obsolescence and wear-out factors is a major source of property entering the surplus disposal program. For the purpose of planning our future efforts, we make the assumption that 10 percent, or \$6.4 billion, of this equipment will be subject to disposal each year.

In addition to the disposal of capital equipment, there are other sources of surplus property. A significant portion of our supply-system inventory consists of repair parts, components, and assemblies which are repaired after use and resalued when required. Such material does, of course, reach the point when its condition no longer warrants repair, and at this stage it enters the surplus disposal program.

Supply-system inventories are also disposed of for other reasons such as damage or deterioration. Further, the sheer magnitude of our operations is such that we, just as is the case in the best of our industrial concerns, do make mistakes in predelicting requirements.

Our supply-system inventories as of June 30, 1959, were valued at \$40.8 billion. The total of \$40.8 billion consists of \$44.5 billion of material in the system and \$2.3 billion of supply-system inventory awaiting disposal. Included in this total is property with an acquisition value of \$9.5 billion which is in an excess or surplus category. This total represents the immediate source of property from the supply system which will enter the disposal program. We have been making an intensive drive to clean out inventories by utilization and disposal. Successful action in this program results in reduced procurement costs in reduced storage costs.

We expect that, for the next 2 years at least, the volume of property entering the disposal program from the capital-equipment and supply-system sources will approximate \$10 billion annually priced at acquisition cost. To enable this committee to evaluate the effect of this program, I am providing at this point a breakdown of the total DOD disposal program for the last 2 fiscal years.

Total utilization and disposal program (at acquisition cost)

[In billions]

	Fiscal year 1959	Fiscal year 1958
I. Property processed in program.....	\$9.890	\$0.404
II. Total utilized and transferred to donation.....	1.591	.942
A. Within DOD.....	(1.172)	(.587)
B. To other Federal agencies.....	(.417)	(.134)
C. Donated.....	(.302)	(.221)
III. Scrap, salvage, and destroyed property.....	4.897	3.457
IV. Sold as usable property.....	2.408	2.005
V. Proceeds from sale.....	.213	.108
A. Scrap and salvage.....	(.091)	(.070)
B. Usable property.....	(.122)	(.122)

When property is utilized under this program and new procurement is curtailed as a result, the best possible return is achieved by the Government.

The sharp increase in the utilization rate is evidence that our programs are progressing in the right direction.

We have just revised and improved our utilization screening procedures, and we are confident that the rate of utilization will continue to increase as the new procedures become effective.

An intensive review of our system for selling surplus property has just been completed. We are consolidating the current 315 sales offices into 35 interservice sales offices which will be located in key market centers throughout the country. These offices will sell all DOD surplus property within their prescribed geographical regions.

There are many advantages in this revised system:

Multiple, unsynchronized sales within any area will be eliminated.

Uniform and improved sales techniques will be used.

Personnel and facilities will be consolidated.

The opportunity for much wider buyer participation will be increased.

A single sales information office will be established to which prospective buyers of DOD surplus property can address inquiries and receive information on the surplus disposal program. This office will maintain a national bidders' list and will prepare and distribute sales catalogs for all selling activities in the United States. The Air Force has been operating a central office on a limited scale for several years; therefore, the assignment of these functions on a DOD-wide scale has been made to that service. These changes will result in reduced cost as well as improved sales relations with the buying public.

The very magnitude of our supply operations and our materiel modernization programs is such that we will continue to have a large volume of surplus disposal. We believe that in the past few years we have tightened our controls and significantly improved our utilization and screening procedures. Of necessity, the DOD must dispose of obsolete and worn-out property. Without an active disposal program, our military supply systems would soon become impossibly clogged, and storage costs would become unbearably expensive.

DEFENSE MATERIEL MANAGEMENT PROGRAM

It is not my intent to make this statement solely a recitation of specific accomplishments or to create the impression that nothing further remains to be done. On the other hand, I want you to know that we are aware of our problems, and have made progress toward correcting them. What is most important is that we have developed the management tools to identify problem areas and to initiate corrective action. Positive programs have been established to continue our progress. In this connection, I am submitting for the record a copy of the defense materiel management program for fiscal year 1960. I would like to point out to the committee that this is the first time in the history of the DOD that a comprehensive materiel management improvement program has been issued as a blueprint for actions to improve our supply operations.

The defense materiel management program is a related group of 26 specific projects which the military departments and the Office of the Secretary of Defense have agreed upon for accomplishment during fiscal year 1960. The program pinpoints areas for further progress and builds on the management tools we have developed in the past several years.

The keynote of this program is integration of materiel management. Almost 2 million items of supply are included in the program for review and determination as to which form of integrated management is most appropriate.

Commodity areas have been selected for review and determination. Criteria by which the specific determination will be made as to type of management to be used have been published and schedules for application are being developed.

Several projects of this program have, as their objective, the further integration of the supply distribution systems and the further development of uniform procedures covering the flow of materiel from producer to consumer.

Other projects provide for improved operation for our interservice support program and with the expanded use of GSA facilities for screening and utilization of excess materiel.

We intend to make greater use of the GSA for supply of commercial items and there are projects which will improve and make uniform the procedural relationship between the DOD and GSA in order to facilitate the expanded volume of business.

I feel sure that your review of this program will assure you that we are aware of our problems and that we have a positive and forward approach to their solution.

STORAGE AND WAREHOUSING PROGRAM

In our storage and warehousing program considerable progress has been made in reducing the number of square feet of warehouse space used to store materiel. In June of 1954 there were 370.1 million gross square feet of covered storage space at major supply depots. By June of 1959 this had been reduced to 342.4 million square feet, or a reduction of 27.7 million square feet. By June of 1962 plans provide for further reduction of an additional 18.8 million square feet to a total of 323.6 million square feet. This is by no means a completed job. We are continually reviewing depot operations for the purpose of identifying additional storage space that may be inactivated. It is anticipated that further reductions will be made.

PROCUREMENT POLICY AND METHOD

The committee has expressed an interest in the various methods of procurement used by the Government. In order to completely respond to specific questions in this area, Mr. Bannerman, the Director for Procurement Policy, is here to assist in providing answers. Like the civilian agencies of the Government, the Department of Defense buys both by formal advertising and by negotiation.

"Negotiation" is defined as any method of procurement other than formal advertising. It includes our competitive small purchase procedures under \$2,500, where Congress has determined that formal advertising would be too expensive, and which last year ran at 82.9 percent of our total purchase transactions. "Negotiation" also includes many other transactions which are subject to either price or design competition and which by their very nature and size make up a very high percentage of our procurement dollars.

Formal advertising, as a method of procurement, is suitable for use only where there are relatively firm specifications so that all prospective bidders can know precisely what is wanted, and hence, all can bid on an equal basis. Such specifications are, or can be made, available for most consumer goods, services, construction work, and certain military supplies where changes in technology are not rapid. The Department of Defense buys such materials and services through formal advertising. However, the vast preponderance of the procurement dollars of the Department are in research and development or in areas of such rapidly changing technology as missiles, aircraft, electronics, naval vessels, tanks or other weapons. The lack of firm specifications and the necessity for utilizing rapidly advancing industrial techniques and invention in such contracting makes procurement by negotiation essential. To do otherwise would require that designs be frozen, that extensive time be devoted to the development and preparation of detailed specifications and, as a result, that we buy outmoded weapons.

The committee also is interested in our use of cost reimbursement types of contracts. It is our policy to use such contracts only when the nature and complexity of the procurement is such that the costs of performance cannot be estimated with reasonable accuracy. To use fixed price contracts under these circumstances would, in many cases, require contractors to shoulder risks which are not of their own making and which are beyond their financial ability to withstand. In practically all such cases contractors would properly include very large contingency factors which could be eliminated if the cost reimbursement type of contract were used. As a matter of law we are required to certify, in every use of cost reimbursement contracts, that there has been a finding that the use of such a contract is likely to be less costly than other types of contracts or that it is impractical to secure supplies or services of the kind of quality required without the use of such type of contract. Our policy favors the use of firm fixed price contracts unless there is a showing, in each case, that the use of another type of contract is more appropriate.

As a practical matter cost reimbursement is used predominantly in contracts having a high content of research, experimentation, or development. For the last several years the percentage of our dollars going into straight production contracts has been decreasing and the percentage going into contracts calling for research, experimentation, or development has been increasing. Accordingly, the use of cost reimbursement contracts has been on the increase to the point where it now represents 40.9 percent of our contract dollars.

To assist in administering our cost reimbursement contracts we have recently issued a revised and greatly expanded set of contract cost principles. These principles will be incorporated by reference in all cost reimbursement contracts as the contractual basis for cost allowance and payment. All such contracts are subjected to audit by the Government and payments are made on the basis of such audit. The cost principles form the background for such audits and provide the guidance for questions of the allowability and reasonableness of costs. In general, it is provided that a cost is unreasonable, and hence unallowable, if it exceeds that which would be incurred by an ordinarily prudent firm in the conduct of a competitive business. It will be seen, then, that we attempt to follow industry or area patterns rather than lead them. Inasmuch as, in fiscal year 1959, our cost reimbursement contracts represented about 2 percent of the gross national product we feel that such contracts do not have any substantial inflationary effect on the economy.

SMALL BUSINESS PROGRAM

Military procurement is an important source of income to many thousands of small business firms. From available statistics, we estimate that small business firms receive something more than \$7 billion per year in military prime contract and subcontract business.

So far as prime contracts are concerned, the principal small business opportunities are in the procurement of commercial types of items, and construction. In fiscal year 1959, \$2.8 billion, or 75 percent, of the small business total of \$3,783 million was in contracts for subsistence, textiles, clothing, equipment, petroleum products, other fuels, miscellaneous hardware, construction, and small purchases. Small business received 52.3 percent of the value of all military awards in these categories.

In the aircraft, missiles, ships, ordnance, and electronics programs, small firms received \$700 million, or nearly one-fifth of all small business awards. In percentage terms, the small business share of total prime contracts in these categories, of course, is small, averaging 4.0 percent in 1959. Small business prime contract work in most of these major hard goods programs is necessarily limited to the manufacture of parts, subassemblies, instruments or other equipment and supplies which do not account for any major part of the cost. Small firms by definition do not have the manpower, equipment, or facilities to turn out major assemblies or complex subassemblies for modern military weapons. In some areas, such as ammunition parts, or electronic assemblies, the problem is to maintain adequate resources for production in relatively large quantities.

The problem of increasing small business participation in defense work is complicated by the increasing complexity of weapons, and the increasing share of the procurement dollar that must be used for these weapons. Procurement in the major weapons categories was about 68 percent of the total in fiscal year 1959. Aircraft and missile procurement alone represented 51 percent of the total.

We are well aware of the importance of small business ingenuity and enterprise to the American economic system and to the defense program, and we have an organization of small business specialists, charged with promoting small business opportunity in Defense procurement.

Examples of our recent small business program activities include the following:

1. Participation in the Department of Defense small business subcontracting program by major prime and subcontractors has been made mandatory.
2. Emphasis has been placed on small business in the review of "make or buy" plans and in the review of subcontracting plans.
3. Drawings or parts lists submitted to the military departments in the future must identify the vendor of the parts.

A further tangible indication of the efforts being made by the Department of Defense in the interest of small business is the fact that set-asides of pending procurements for participation exclusively by small business, jointly agreed to by the Department of Defense and the Small Business Administration have increased from \$247.6 million in fiscal 1954 to \$1,077.3 million in fiscal 1959. It is further significant that while the set-asides themselves have increased by only \$40 million from fiscal 1958 to fiscal 1959, the actual awards made to small business under agreed to set-asides increased from \$633.7 million in fiscal 1958 to \$797.3 million in fiscal 1959.

These activities are among our continuing efforts to assure that the Defense small business programs offer the small business community an equitable opportunity to participate in military procurements.

LABOR SURPLUS PROGRAM

An active program on behalf of areas of substantial labor surplus is being carried forward by the Defense Department under policy direction of the Office of Civil and Defense Mobilization. Approximately \$96 million was awarded to firms in areas of substantial labor surplus during fiscal year 1959 under the preference provisions of the policy. This compares with \$36.6 million during fiscal year 1958. However, it is to be recognized the number of labor surplus areas during 1959 was greater. This amount was in addition to more than \$9 billion flowing into these areas under our normal procurement processes as compared with \$3.8 billion the previous year.

OCEAN TRANSPORTATION

The Department of Defense in the field of ocean transportation took one of the earliest of its major steps toward integration of transportation services. In October 1949, the Military Sea Transportation Service was formed to provide, under one authority, control, operation, and administration of ocean transporta-

tion for personnel, material, mail, and other cargoes for all agencies or departments of the National Military Establishment (excluding personnel and cargo transported by units of the fleet). With the formation of MSTs the fleets of the Army Transport Service and the Naval Transport Service were merged into one reduced fleet. Procurement activities which had been independently conducted by the Army and Navy were centralized in MSTs.

With the centralization of procurement, MSTs was in a position to take all reasonable advantage of the purchasing power of the Department of Defense. The extent of this purchasing power is illustrated by the following statistics which set forth the commercial carriage of dry cargo, petroleum products, and passengers under MSTs auspices in fiscal year 1959: Cargo, 8,077,427 measurement tons or about 3 to 3.5 million long tons; petroleum, 7,069,101 long tons; passengers, 80,061 individuals. In 1959, MSTs paid over \$242.6 million for the use of commercial steamship services. This is a \$24.8 million increase over fiscal year 1958 expenditures for these services. During the same period MSTs total expenses decreased by \$20 million from \$434 million to \$414 million. Further, a notable area of decrease was in cost-plus operation of Government-owned ships which dropped by \$19.7 million.

Closely connected with integration in Department of Defense ocean transportation is the trend toward integration of Department of Defense ocean terminal facilities. Both the Army and the Navy have military missions which require the ability to operate ocean terminals. Peacetime operation of military terminals, however, offers opportunities for consolidation. As a result of joint studies made by the military departments under the sponsorship of the Department of Defense military terminal operations in the Seattle area have been consolidated under the Navy. In the San Francisco area handling of refrigerated products has been integrated under the Army. In the New York Harbor area the number of military terminals has been reduced with the workload divided between the two remaining Army and Navy terminals on a cross-servicing basis. Studies looking to further consolidations are in progress.

DOMESTIC TRANSPORTATION

The Military Traffic Management Agency was created as an operating agency for the single manager for traffic management. This assignment was made on May 1, 1956. The purpose of this delegation was to provide effective and economical administration of the procurement of commercial freight and passenger services within the United States, to eliminate duplication and overlaps existing within the military departments under separate administration of these programs, and to develop plans for the efficient use and control of commercial systems in emergencies.

MTMA replaced 5 headquarters units formerly located in Washington and 17 field activities. On balance, 4 headquarters units and 11 regional offices have been eliminated.

MTMA's budget for 1959 was \$6,105,000. Domestic transportation costs were \$563 million except for timely adjustments in the freight and passenger transportation areas. It is noteworthy that the ratio of administration continues to be only 1 percent of the funds administered. The Hoover Commission in 1949 considered a 2 percent ratio as an efficient measurement.

AIR TRANSPORTATION

In creating MATS as the single manager operating agency for airlift service, it was recognized that U.S. commercial air carriers could and should provide a significant quantity of airlift capacity to support military operations. The guidelines laid down by the Secretary of Defense in the directive establishing the single manager for airlift service called for that recognition and provided for the use of commercial airlift service during peacetime in a manner which would:

(a) Contribute to the sound economic development of an increased modern civil airlift capacity; and

(b) Enhance the ability of civil carriers to operate with maximum effectiveness in support of military forces in time of war.

The extent to which commercial carriers have participated in the movement of traffic of the type encompassed by MATS before and after the establishment of the single manager operating agency for airlift service is worthy of review. There has been a considerable increase in the number of passengers and tons

of cargo moved by commercial air carriers each year since 1955. As an example, in fiscal year 1955 commercial carriers transported only 1 percent of the passengers transported under MATS. In fiscal year 1959 commercial carriers transported 35 percent of such passengers. Commercial air carriers transported only 8.8 percent of MATS cargo in fiscal year 1955 as opposed to 11 percent in fiscal year 1959. The dollar expenditure for commercial augmentation for MATS has been increased from \$14.1 million in fiscal year 1955 to \$70.4 million in fiscal year 1959.

This is only a part of the Department of Defense expenditure for airlift service, however, during fiscal year 1959, the Department of Defense total bill for commercial airlift service was something over \$231 million.

During recent months, several actions have been taken within the DOD which have an important bearing on the overall airlift situation as evidenced by the increasing amounts of defense traffic moving by commercial carriers. The duration of fixed contracts have been extended to cover generally a period of a year. This was done to give more stability to carriers and a better basis for their planning. The size of MATS has been frozen at a level no higher than its April 1959 capability and the flying hour objective has been reduced from 6 to 5 hours per day in peacetime. Also, during this fiscal year, three squadrons of C-97 type aircraft are being eliminated from MATS. All of these actions should clearly indicate the intent of the DOD to minimize the effects of necessary military air transport operations on the growth and modernization of the civil air carrier industry.

TELECOMMUNICATIONS

The military departments communications program requirements are constantly under scrutiny to obtain the maximum use of existing facilities and the maximum consolidation of worldwide long haul circuits. A DOD policy directive toward the attainment of an integrated DOD worldwide system was promulgated in March 1959. The Secretary of Defense in July 1959 approved the Joint Chiefs of Staff concept for the management and control of military communications. Several plans for the development of specific arrangements to effect implementation of the concept are being considered. It is believed that this effort will bring about a most effective means of accomplishing maximum integration and full utilization of the Department of Defense communications capabilities.

UTILIZATION OF MACHINE TOOLS

Several years ago the Department of Defense inaugurated a program to assure effective utilization of idle production equipment. The program is managed in two parts.

First, each military department has a central production equipment control office charged with the responsibility for the effective utilization of idle production equipment.

Second, a central DOD coordinating effort known as the production equipment redistribution group (PERG) insures effective cross-servicing between departments.

Exclusive of the redistribution of production equipment within each military department, interservice redistribution of equipment during calendar year 1959 resulted in the utilization of over 6,200 items. This equipment had an acquisition value of over \$70 million. Based on their replacement value today the procurement cost of new equipment would be well in excess of this figure. For comparison purposes, during calendar year 1958 approximately 4,600 items having an acquisition value of approximately \$50 million were redistributed.

In the short span of this statement it has been possible to cover only a few of the numerous activities and accomplishments in the field of defense logistics. The progress we have made and the plans in progress for further improvement are directed to three major considerations:

1. To take full advantage of benefits to be derived through consolidation and integration of Defense logistics systems and improve existing practices which have proved to be effective.

2. To provide a responsive supply and logistics operation which meets the needs of all elements of the Defense organization under its varied and changing operational activities.

3. To provide policy guidance which will produce the most effective coordinated working relations between the Department of Defense and all facets of the

civilian economy consistent with military requirements and the national interests.

Gentlemen, this concludes my prepared statement.

Mr. McGuire. I would like to start with the area of inventory management.

We believe we are achieving the dual objective of effectiveness and economy by progressively integrating logistics operations throughout the Department.

In achieving these objectives, certain policies have been established; specifically, these policies are:

(a) Inventories held by the separate military services are considered assets of the Department of Defense. They will be utilized in lieu of new procurement when and where a valid need exists.

(b) Single service management techniques, or the General Services Administration are to be used for like groupings of items.

(c) Single service distribution of material is to be applied where concentration of defense activities warrants.

(d) Advanced principles for requirements determination and data processing will be applied to logistics operations.

(e) We are continuing our efforts to the development of common identifications, improved supply procedures, simplification of common commercial items, and standardization of technical items.

Based on these policies, the Department of Defense has taken steps over the past several years which we believe have achieved positive results.

If you have no objection, Mr. Chairman, I will submit for the record a list of these factual accomplishments.

The CHAIRMAN. Thank you very much.

(The document referred to follows:)

DEPARTMENT OF DEFENSE FACTUAL ACCOMPLISHMENTS—INVENTORY MANAGEMENT AND SURPLUS DISPOSAL

BODY OF POLICY AND PROGRAM DIRECTION NOW IN EFFECT

A. Each item of materiel within a military service will be managed by only one inventory control point; item and financial records will be maintained by condition and purpose (serviceable; peacetime, mobilization, etc.); physical inventories will be taken generally once a year.

B. Maximum reliance will be placed by the DOD on producer or commercial distributive systems and on the stores depot system of the GSA.

C. Optimum use on an interservice basis will be made of available materiel within the DOD.

D. Uniform and comprehensive inventory management reporting will be made to the DOD by all military services (not items but values).

E. Standard forms for supply documentation of materiel transactions will be used throughout the DOD.

F. The Armed Forces Supply Support Center is in operation to perform common supply functions of utilization, cataloging, standardization, and analysis of supply systems.

G. Comprehensive updated utilization screening procedures are in effect to assure maximum use of available assets within DOD and within the Federal Government.

H. Uniform demilitarization policies are in effect for all elements of the DOD for surplus military property located in the continental United States, Territories, and possessions.

I. Percentage operating and safety levels of supply will be computed on economic factors using prescribed formulas to determine economic order quantities of supply and economic levels of stock.

J. Uniform and comprehensive accounting and reporting for the excess and surplus property program will be used throughout the DOD.

K. All inventories held in quantities above minimum peacetime and mobilization requirements will be transferred between inventory managers of the DOD without reimbursement to be used in lieu of new procurement.

L. Military service excess stock fund inventories held in lots of \$3,000 or less (acquisition cost) will be transferred within the DOD at the post, camp, and station level, and within the Federal Government without reimbursement to be used in lieu of new procurement.

M. The GSA will be used to screen all excess military property held in lots of \$3,000 or less (over 50 percent of all lots) with simultaneous screening of military and civil agencies being performed on a regional basis.

N. An accelerated item reduction program is in effect and will be completed by December 31, 1961. The program will reduce the range of items through simplification, will increase commonality of item use, will increase central knowledge of items, and will result in inventory reduction through cleanup and attrition.

O. The establishment of consolidated surplus sales offices and a single bidders registration office has been directed, and these offices will operate on an inter-service basis. (Reduction from 815 to 35 offices.)

Results to date:

A. Supply system inventory totals:		<i>Billions</i>
June 30, 1954.....	-----	\$60.6
June 30, 1955.....	-----	50.8
June 30, 1956.....	-----	51.0
June 30, 1957.....	-----	54.1
June 30, 1958.....	-----	50.4
June 30, 1959.....	-----	46.8
		<i>Fiscal year 1958</i>
B. Current support of DOD by GSA:		<i>(millions)</i>
From GSA stores depots.....	-----	\$105.4
From Federal supply schedule.....	-----	323.4
Total.....	-----	428.8
		<i>Fiscal year 1959</i>
C. Current Inter-Government utilization of DOD assets:		<i>(millions)</i>
Within DOD.....	-----	387.0
Other Federal agencies.....	-----	117.0
Total.....	-----	504.0

Mr. McGUIRE. Workload indices during fiscal year 1955 through fiscal year 1959 show increases ranging from 16 percent to 23 percent. Supply system operating costs increased only 11 percent.

In the past 2 years inventories have been reduced by \$7.3 billion. Interservice and interagency utilization of material assets in lieu of new procurement has risen from \$721 million in fiscal year 1958 to a current rate of \$1.3 billion annually.

This obviously is the utilization of our assets in lieu of new procurement.

We have single manager assignments for subsistence, medical supplies, clothing and textiles, and petroleum.

A comprehensive analysis of the single manager concept revealed that significant economies have been achieved by the elimination of concurrent buying and selling—

EFFORTS TO ELIMINATE CONCURRENT BUYING AND SELLING

The CHAIRMAN. Mr. McGuire, do I understand you to say the elimination of concurrent buying and selling?

Mr. McGUIRE. This is our objective.

The CHAIRMAN. Has it been achieved?

Mr. McGUIRE. I believe that it has been achieved, Senator. I don't mean to hedge this. We think it is achieved in principle and in practice. There are instances where it will happen. There is one point that I would like to stress, if I may.

In the screening process, and I am going to get to this later in my statement—we have said that on items with an original cost of \$3,000 and under the cost of screening nationally is not worth while. It costs more to do this than we can save through utilization. Therefore, we are only screening such items on a regional basis, and if no need develops we dispose of them.

Now, to illustrate what I am saying, we might be screening, let's say, in area A, and the other side of the country in area B, we might be buying a comparable small value item. It do not call this concurrent buying and selling. I call this sound management. It is cheaper for the Government to handle it this way.

As I said, a comprehensive analysis of the single manager concept revealed that significant economies have been achieved by the elimination of concurrent buying and selling; reduction of crosshauls and backhauls; payroll reductions; more economical procurement operations; and item reduction and standardization programs.

The systems are providing effective supply support and the customers approve.

Our estimates indicate one-time savings of \$239 million resulting primarily from reduced inventory, and annual savings at the rate of \$13 million each year.

I wish to stress that these are only the identifiable savings, and I believe they have been made on a conservative basis.

Two new single managers have been designated. These are:

Military General Supply Agency (Army).

Military Industrial Supply Agency (Navy).

In addition the military departments are to review and submit recommendations on single managership for construction supplies and automotive supplies.

Coordinated procurement program:

Under the DOD coordinated procurement program we have 64 plant assignments and 39 commodity assignments through which we coordinate the procurement of items in the majority of the Federal supply classes.

Under these assignments, one Department serves as the procuring agency for all other Departments.

During the past year, we have devoted considerable time and effort toward reenergizing and improving the scope and efficiency of this program.

SURPLUS DISPOSAL

The value of military equipment in use which must be supported through our logistics systems amounts to \$63.6 million. This figure represents the acquisition cost of our capital equipment.

This capital equipment either wears out from use or becomes obsolete. For the purpose of planning our future efforts, we make the assumption that 10 percent, or \$6.4 billion, of this equipment will be subject to disposal each year, and this is for planning purposes only.

Inventories are also disposed of for other reasons such as damage or deterioration. Further, just as in the case of the best of our industrial concerns, we do make mistakes in predicting requirements.

Our supply system inventories as of June 30, 1959, were valued at \$46.8 billion. Included in this total is \$9.5 billion, which is excess or surplus.

The CHAIRMAN. How much surplus?

Mr. McGUIRE. Included in this total is \$9.5 billion, which is either excess or surplus and, if you would allow me to, sir, I have a table which I would like to discuss in detail to explain that because I think there is some confusion on this terminology. We have been making an intensive drive to clean out inventories by utilization and disposal. In this respect I would like to comment that some of the things that we are now calling excess and putting into disposal channels are not new. They have been in the inventory system for some time. The point here is that I think we now have the capabilities to identify them, and, the determination to bring them out on top of the table and decide what we are going to do about them. If they are not usable in our inventory we take steps to get them out of the system so that we are not paying needless handling and warehousing charges.

I know some of the figures have frightened some people, but I point out to you it is not something new that has suddenly developed.

We expect that, for the next 2 years at least, the volume of property entering the disposal program for all sources will approximate \$10 billion annually priced at acquisition cost.

I have a table here, and I believe this table is included in my original statement. This shows the comparison of utilization under the disposal program for the fiscal years 1959 and 1958, which I think is significant. In the year 1958, which I will read first and then follow with the 1959 figure, we processed property in the amount of \$6.5 billion; in 1959, \$8.9 billion. This is the rate of the processing of this material.

The CHAIRMAN. When you say processing, does that mean disposed of?

Mr. McGUIRE. No. This is the property that we put into this screening category for review, sir. As a result of this, we find a requirement for it and utilize it within our own system, or have another Government agency take it off our hands, or put it into the disposal channels. The donation program also would be included in this. Breaking that figure down we utilized \$1,591,000 in 1959 and \$0.942 billion in 1958. In rough figures, and I could give the figures in detail or with greater accuracy if you desire them, in utilization

within the system, which is the true test of the efficiency of the screening process, in 1958 it was around \$700 million and in 1959 it was \$1.2 billion.

Representative CURTIS. I am trying to follow this on the chart. Is this the chart that is in your paper?

Mr. McGUIRE. Yes. I am now taking the chart, Mr. Curtis, and breaking it down as to A, B, and C.

Representative CURTIS. Yes. I was just trying to follow you here.

Mr. McGUIRE. I was trying to do it from memory. I am glad you told me which page it was on in the original statement.

Representative CURTIS. There was a little discrepancy in the figures. That is why I wasn't sure.

Mr. McGUIRE. Thank you for your assistance in that matter. The items that we couldn't use out of the excess listing, so-called—

Mr. O'MAHONEY. What do you mean by "the items that we couldn't use"? Who are we?

Mr. McGUIRE. The Department of Defense, not the full Government, Senator. I am attempting, Senator, to trace very quickly and briefly the processes through which merchandise or items that are called excess go through before they are released for surplus. I am pointing out that because it is listed as excess it is not excess to the Department of Defense requirement; it is excess to the agency which happens to hold it, and then the step we take to go through other areas, Army, Navy, Air Force, Marine Corps.

Senator O'MAHONEY. Who in the Department of Defense exercises that function of determining what is usable and what is not?

Mr. McGUIRE. First of all, each individual service reviews in their requirements—

SCREENING OF EXCESS PROPERTY

Senator O'MAHONEY. Mr. McGuire, the individual service can't review anything. It is somebody in the individual service, some officer.

Mr. McGUIRE. That is right.

Senator O'MAHONEY. Who is it?

Mr. McGUIRE. I think I can tell you, but Mr. Riley, who is in charge of this area, will give you this in the exact detail.

Mr. RILEY. Senator, these determinations are normally made by an inventory control point. He is the manager of that kind of material.

Senator O'MAHONEY. Inventory control point?

Mr. RILEY. Yes, sir.

Senator O'MAHONEY. What is the point in your terminology?

Mr. RILEY. An inventory control point, sir, is one that has the function or the responsibility for the computation of requirements for items assigned for distribution.

Senator O'MAHONEY. Who is the individual in charge? Military or civilian?

Mr. RILEY. In most cases it is military.

Senator O'MAHONEY. In most cases it is military?

Mr. RILEY. Yes, sir.

Senator O'MAHONEY. What knowledge does he have of making contracts?

Mr. RILEY. I beg your pardon.

Senator O'MAHONEY. What knowledge is such a military man required to have for making contracts?

Mr. RILEY. The military man normally is head of the inventory control point organization. This doesn't mean that he is the particular individual that makes the contract. He has a procurement man who does it.

Senator O'MAHONEY. How can he judge whether or not the items can be used?

Mr. RILEY. How can he judge?

Senator O'MAHONEY. Yes, sir. If he doesn't have anything to do with the contract.

Mr. RILEY. He has records of all the items, Senator, and if an excess item from another service comes to him he can determine his stock position on that particular item and pick it up if he needs it.

Senator O'MAHONEY. I will say to both of you that yesterday we saw list after list of monthly excess items in which there were listed many items which had never been used and they were being just tossed into the wastebasket or in the garbage pail.

Mr. McGUIRE. Senator, could I attempt to clarify this point?

Senator O'MAHONEY. Oh, I think it is most necessary.

Mr. McGUIRE. Fine. I thank you for the opportunity.

The lists you were discussing yesterday are the excess lists, and I will try to explain where the material comes from. Our so-called excess material arises from four or five different reasons. There is material on these lists which comes about through overbuying in the past. It comes about through changes of requirements that have been made since the item was purchased.

Senator O'MAHONEY. You say overbuying in the past?

Mr. McGUIRE. Yes, sir.

Senator O'MAHONEY. What this committee is very anxious to know is whether there is any overbuying now.

Mr. McGUIRE. Senator, to the best of my knowledge I do not know of any. We are tightening down on these things to make them more realistic all the time. We start out, and I will have to break them down in my statement further for your help, and we buy an item and we buy it to support certain programs, missions, and troops. Now, if that program is changed, obviously if the item was specific for that program we don't have a need for it. That is item 1.

Item 2—let's take the F-86 aircraft.

Senator O'MAHONEY. Let us deal with item 1. You say if the item was specific for that program we don't have any need for it.

Mr. McGUIRE. Yes, sir.

Senator O'MAHONEY. If that item is surplus, it means that it was overbought.

Mr. McGUIRE. Not necessarily, sir; no.

Senator O'MAHONEY. If the item was not needed for the surplus and is there, how did it get there, except by surplus buying?

Mr. McGUIRE. I would like to restate what I said. I said if we buy an item for a program, or a requirement, or a mission and this is changed, making it no longer necessary, it does not mean that it was overbought, nor does it mean that it was bad buying. We have to deal in the situation of keeping this country adequately prepared on a defense mission which is changing all the time in its context, and I am not making excuses for the points where we make mistakes. I am trying to give you all the reasons that fall into this.

The second reason would be the type of thing as an F-86. Now, when we were flying F-86's we had spare parts. As we phased into the system the replacement plane we had to maintain those spare parts. I know it can be argued that we had too many or we brought them in the wrong proportions. There is no science that I know that has been developed to buy the right number of planes or parts. They use the best mathematical judgment and there are areas, I am quite sure, where it can be proven in retrospect they bought too much. However, that is beside the point at this moment. We had to have those spare parts to support that plane and protect that boy who was flying it as well as to provide the defense mission it was on. The minute we take that plane out of the system, all of this backup material that made it a supportable plane becomes excess. Some of this is repaired, some of it is worn out, and some of it is new.

The third category of new material would be material where for one reason or another our judgment, or estimate, or our technique at that time when we bought them was not accurate enough. Maybe we didn't know what we were doing, but it is a combination of all of these things that makes markdowns in the retail business.

Now, with respect to this list that you were talking about yesterday. After the local agency that owns the item examines it against its future requirements, and says, "I have more than I need," it goes into this list which is used to circularize everybody else who might possibly have need of it, on a primo basis, substitute basis, or some other way.

As a result of this list being used the way it is, we took out of this system roughly twice as much--we took out \$1,172 million last year instead of going out to buy it, as against \$587 million the year before. I think this is a measure of the effectiveness of our screening.

After we have gone over this list to see whether we can get everything out of it we want, this is sent to other Federal agencies.

Senator O'MAHONEY. Are we to understand, Mr. Secretary, that you are saying that in fiscal year 1959 \$1,172 million worth of this material which had been declared excess was in fact after screening used by the Department of Defense as compared with only \$587 million the year before?

Mr. McGUIRE. Your statement is correct, Senator, but I would point out to you that the use of the term "excess" means excess beyond the needs of the individual who put it into a category where it can be reviewed from the viewpoint of our total requirements. We happen to consider our total requirements as being U.S. dollar requirements. Anything anybody owns is considered Department of Defense ownership. What we are doing, as a matter of fact, is exactly the same system that I used in Montgomery Ward nationally. When store A had something in excess, we circularized it, before selling it at half price, to the other stores to see whether they could use it and had a need for it.

I think here the use of the word "excess" would tend to lead one to think that this is excess beyond the needs of the Department of Defense. We didn't consider it in that category.

Senator O'MAHONEY. I did not use it in that sense.

Mr. McGUIRE. I know you didn't, Senator.

Senator O'MAHONEY. You may proceed.

Mr. McGuire. Thank you, Senator.

We have just revised and improved our utilization screening procedures.

We are consolidating the current 315 sales offices into 35 interservice sales offices which will be located in key market centers.

A single sales information office will be established to which prospective buyers can address inquiries. This office will maintain a national bidders' list and will distribute sales catalogs.

The very magnitude of our supply operations and our material modernization programs is such that we will continue to have a large volume of surplus disposal.

DEFENSE MATERIEL MANAGEMENT PROGRAM

It is not my intent to create the impression that nothing further remains to be done. On the other hand, I want you to know we are aware of our problems, and we have developed the management tools to identify problem areas and to initiate corrective action. I am submitting for the record a copy of the "Defense Materiel Management Program for Fiscal Year 1960." I would like to point out that this is the first time that comprehensive materiel management improvement program has been issued as a blueprint for action, and that it comes about as a result of the concurrence and desire of the services that this had to be done.

(The document referred to follows:)

THE DEFENSE MATERIEL MANAGEMENT PROGRAM, FISCAL YEAR 1960

FOREWORD

This publication sets forth a comprehensive materiel management improvement program for the Department of Defense for fiscal year 1960.

The 26 interrelated projects comprising the program are designed to achieve further integration of materiel management in the Department of Defense. The continuing efforts of the individual military services to improve their intraservice supply activities are not reflected in this program.

The program is the latest of a series of logical steps in a dynamic plan to integrate materiel management in the Department of Defense without disrupting the complex worldwide military supply systems and thus impairing the ready-to-fight posture of the Armed Forces.

The program will be accomplished during fiscal year 1960 to the extent that time and resources will allow. Similar and corollary programs will be developed and published for subsequent fiscal years.

PERKINS MCGUIRE,

Assistant Secretary of Defense (Supply and Logistics).

DECEMBER 10, 1959.

Project No. 60-1

Project title.—Determination of materiel management assignments.

Objective.—To make integrated materiel management assignments for items of supply within selected categories of items as a result of a coordinated management review program.

Approach.—This project will be accomplished through coordinated participation by OSD, the military departments, and the AFSSC.

Based on the application of criteria to be developed, coordinated, and approved under project 60-2, items of supply in categories agreed upon by the military departments and OSD will be coded and classified according to the management techniques indicated in project 60-2. Initially, priority for coding and classification action will be given to the Federal supply groups and classes which the military departments and OSD agree will be included in the single manager assignment for general supplies and the single manager assignment for indus-

(with supplies. Each of the military services will code items in three groupings as follows:

1. Items which must remain under the management control of the requiring military service.
2. Items which must remain under military management control, but not necessarily under the control of the requiring service.
3. Items for which management control can be determined primarily on economic considerations.

The military services will forward the results of the above codings to the appropriate designated classification agencies. These agencies will—

1. Further classify the items as reported by the military services, using the approved criteria, according to the integrated management techniques indicated in project 60-2.

2. Based on the classification actions described above, determine logical groupings of items for integrated management assignments and report the result of such determinations to the military services.

When a military service classifies an item as one which must remain under its control, the classification agency will not reclassify the item under a management technique which will change such control except that a coordinated procurement assignment may be recommended. Inconsistencies in classification action by the military services which appear questionable upon review by the classification agency will be referred to the reporting military service for further consideration. Disagreements between the military services and the designated classification agencies as to methods of management will be referred to OASD(S. & L.) for decision. At the conclusion of the classification action or during the process of such action if it appears warranted, the OASD(S. & L.) will conduct a review of those items which have been excluded from integrated management assignment.

Uniform procedures for the application of the approved criteria will be developed by the AFSSC with the participation of the military departments.

A time-phased schedule for accomplishing this project will be developed and coordinated by the OASD(S. & L.) based on recommendations submitted by the military departments.

Additional categories of items as agreed upon by the military departments and OSD will also be similarly coded and classified under the criteria expressed in project No. 60-2.

The schedule for accomplishment of item review and item management determination will be dependent upon the availability of resources to finance the additive workload.

Project No. 60-2

Project title.—Development of management method criteria.

Objective.—To develop criteria for application to items of supply within agreed-upon categories for the purpose of providing an orderly basis for the selection of the best DOD-wide supply management technique.

Approach.—Uniform criteria will be developed, coordinated, and approved to provide the basis for determining, for each item of supply in categories agreed upon by the military departments and OSD, the supply management technique which is the most efficient in terms of military effectiveness and overall economy.

The several supply management techniques are:

Individual military service supply management control (including local commercial purchase).

Coordinated procurement program assignments.

Single manager assignments.

Interservice supply support agreements.

General services administrative support.

The criteria will provide for consideration of the supply characteristics and functional application of each item of supply. The supply management working group, consisting of members of the military departments and the OASD(S. & L.), with participation by the Armed Forces Supply Support Center, will develop proposed criteria in accordance with the objective and approach as stated in this project statement. The criteria will be promulgated by OSD after coordination with the military departments.

Coordination of the criteria will be accomplished separately from coordination of the overall improvement program.

It is recognized that one set of criteria may not be appropriate for application to all categories of items in the military supply systems and that actual experience may indicate a need for modification of the criteria. It is, therefore, the express intent of this project that the criteria initially developed and approved under the project will be applied only to such categories of items as may be agreed upon by the military departments and OSD and that upon the request of any military department or OSD the criteria will be reviewed and modified as appropriate.

Project No. 60-3

Project title.—Item range for mobilization of war readiness.

Objective.—To develop criteria for guidance of the military departments in the selection of items to be acquired and retained to meet mobilization of war readiness requirements.

Approach.—Criteria will be developed, coordinated, and approved to provide guidance to the military departments for the (1) acquisition, and (2) retention stockage of items of supply to meet mobilization of war readiness requirements in support of U.S. forces. Retention level objectives for stockage of items in support of other than U.S. forces are not included in this project scope.

In the development of item criteria for mobilization and war readiness, consideration will be given to the utilization of the principle of economic order quantities to satisfy these requirements.

A joint working group composed of representatives of the military departments, the Joint Staff, JCS, and the OASD (S. & L.) is reviewing and evaluating current policies and practices of the military services for the acquisition and stockage of items to meet mobilization and war readiness requirements. The report of the joint working group will include proposed DOD directives in its recommendations which when implemented (after coordination with the military departments and the Joint Staff of the JCS) will satisfy the objectives of this project.

Project No. 60-4

Project title.—Policies for the management of decentralized items of supply.

Objective.—To establish policies to the extent practical, governing that range of items of supply for which management has been decentralized to include priorities of acquisition source.

Approach.—Policies will be developed which will—

1. Provide for uniform definitions and scope of application for local purchase procedures.

2. Provide for practical guidance to decentralized management levels which will permit the application of the best business judgment in the determination of the proper acquisition source from the following alternatives:

(a) Regional excess screening lists.

(b) Long supply listings from interservice sources.

(c) Interservice supply support agreements.

(d) GSA stores depots, Federal supply schedules, or national buying programs.

(e) Commercial sources.

The Armed Forces Supply Support Center is currently engaged in a study of local purchase policies and procedures. (Project 59-3 AFSSC).

Approved recommendations of the AFSSC study project will be reflected in the policies developed under this project statement.

Guidance for selection of acquisition source will be developed with full consideration given to the necessity of insuring maximum practicable utilization of DOD materiel assets, the economies of redistribution, and the need to rotate war readiness stocks.

The AFSSC will transmit recommendations to ASD (S. & L.) resulting from AFSSC study project No. 59-3. The implementation of approved recommendations under the AFSSC 59-3 project will not be deferred because of additional policy development under this project 60-4.

The OASD (S. & L.) will develop proposed guidance for selection of acquisition source and other policies as required to complete the objective of this project. The proposed policies will be coordinated with the military departments and included in an appropriate DOD directive.

Project No. 60-5

Project title.—Procedural doctrine for the acquisition of supplies from the GSA.

Objective.—To establish a firm interagency understanding and procedural relationship between the DOD and GSA for the supply of items for which GSA has been designated as a source of supply.

Approach.—Procedures and standards of supply effectiveness will be established to provide for uniform and timely acquisition of supplies from GSA in the following areas:

(a) Purchases from Federal supply schedules and the national buying program.

(b) Purchases from GSA stores depots.

(c) Purchases by GSA for the military departments under the DOD-GSA interagency assignments.

A review and evaluation will be made by the DOD coordinated procurement program working group of all present procurement and applicable supply regulations and procedures, and interagency assignments affecting military services—GSA supply operations. Where necessary, changes to present procedures will be developed for promulgation as DOD instructions after coordination with the military departments, GSA, and other applicable agencies.

Project No. 60-6

Project title.—Selective review of scope of coverage of the Federal catalog system.

Objective.—To review the current scope of the Federal catalog system to insure that the current coverage facilitates optimum utilization of available items of supply within and between the military services.

Approach.—A review will be made of the current exclusions from the Federal catalog system and a determination made as to whether these exclusions are warranted in the interests of overall defense materiel management improvement. The review will include station and base procured items of supply and centrally managed items of supply both in CONUS and oversea areas which are not currently included in the Federal catalog system.

The joint catalog working group which is currently reviewing the scope of the Federal catalog system for oversea items of supply will conduct this expanded review of CONUS and oversea items of supply.

The joint catalog working group will report to the OASD (S & L) its findings as a result of this review. The report of the catalog working group together with any indicated revisions to the current scope of coverage of the Federal catalog system will be coordinated with the military departments.

Project No. 60-7

Project title.—Inventory review and cleanup program.

Objective.—To eliminate as rapidly as practicable unneeded inventories by requiring the prompt review and redistribution or declaration as excess of unneeded long supply stocks.

Approach.—A practical procedure for accomplishing this review will be developed. Consideration will be given to the development of regularly scheduled supply management reviews of all items which will include redistribution action. Current procedures for the interchange of data for interservice utilization will be examined and improved as necessary. Consideration should be given to any required revision in existing legislation or regulation which adversely affects the prompt disposition of unneeded inventories.

The required procedure will be developed jointly by OSD(S & L) and representatives of the military departments for publication in a DOD directive after coordination with the military departments.

Project No. 60-8

Project title.—Revised excess screening procedures.

Objective.—To develop revised policy and uniform procedures which will reduce the overall excess screening and holding period and increase the effectiveness of the utilization process.

Approach.—Revised policies and procedures will be developed which will—

1. Decentralize the screening of excess property for which the cost of worldwide screening exceeds the utilization potential.
2. Provide for local regional screening of decentralized excess property screening which will permit civil and military agency screening on a more expeditious basis.
3. Provide for uniform and simplified reimbursement procedures for the transfer) of regionally screened and small-value lots of excess property.

Based on the analysis performed by the Armed Forces Supply Support Center, a joint working group has developed a revised DOD instruction (4100.0) which has been transmitted to the military departments for coordination.

Comments of the military departments have been reviewed.

The ASD(S & L) will attempt to resolve remaining issues which have been raised by the military departments.

When issues have been resolved to the extent practicable, the revised DOD instruction will be coordinated with the military departments.

Project No. 60-9

Project Title.—International cataloging.

Objective.—To develop policies and procedures which will insure the required degree of compatibility between the catalog system of the United States and those of friendly foreign nations, where coordinated supply operations are probable.

Approach.—Policies and procedures will provide for implementation of standardization agreements promulgated by the NATO military agency for standardization, and other agreements reached by the NATO panel on codification of equipment.

Required actions include—

1. Determine what actions are required in the Department of Defense supply systems to implement NATO standardization agreements on item classification and item identification.

2. Determine most appropriate method of implementation.

3. Revise DOD Instruction 4130.0, NATO supply classification system and NATO item identification system dated October 30, 1957.

A task group of service and AFSSC representatives has been established to study the agreements, develop the necessary implementing requirements, and revise DOD Instruction 4130.0 for coordination with the military departments.

Project No. 60-10

Project Title.—Development of policies for the supply of common items to Hawaii.

Objective.—To determine the best method of supplying common categories of materiel to Hawaii.

Approach.—Initially, a joint study will be made with respect to the relatively well-defined commodities and missions of supplying subsistence and medical materiel to Hawaii. This initial study will be organized and conducted as follows:

Step I: Study plans will be developed by a joint study group and coordinated by ASD (S. & L.) with the military departments, the Joint Staff, and interested elements of OSD. (The Joint Staff will obtain the views of CINCPAC.) These plans will encompass consideration of existing and alternate methods of supply, to include interservice assignments to one military service in Hawaii and extension of single manager assignments or modifications thereof. Plans will be predicated upon the basic principles that (1) the prerogative and authority of the unified commanders and component force commanders with respect to the logistic support of assigned forces must be clearly preserved, and (2) supply policies and procedures must be fully responsive to JCS and unified command policies, priorities, and other directives and guidance.

Step II: The joint study group will make the study in accordance with the coordinated plans described above and will recommend what they consider to be the best method of supplying subsistence and medical materiel to Hawaii. If a method of supply other than the existing method is recommended by the joint study group, the group's recommendations will include time-phased plans for a pilot test of the method recommended.

Step III: The recommendations of the joint study group will be coordinated by ASD (S. & L.) with the military departments, the Joint Staff (who will obtain the views of CINCPAC) and interested elements of OSD.

Step IV: If the coordination described in step III results in a decision to test a new method of supply, the test will be initiated under the aegis of the joint study group.

Step V: After completion of the test, the joint study group will evaluate the results of the test and furnish recommendations for coordination by ASD (S. & L.) with the military departments, the Joint Staff (who will obtain the views of CINCPAC), and interested elements of OSD.

The Joint study group will be composed of members of each military service, the Joint Staff, CINCPAC, the ASD (S. & L.), the ASD (Comptroller) and other interested elements of OSD. The member designated by the ASD (S. & L.) will be the chairman of the group.

Project No. 60-11

Project title.—Improvement of single manager efficiency and wartime readiness.

Objective.—To develop, to the extent practical and desirable, uniform and simplified procedures which will improve the efficiency and wartime readiness of single manager operating agencies.

Approach.—Simplified, and to the extent practicable, uniform procedures will be developed for single manager operations. Emphasis will be focused on procedures which involve external operational elements such as depots, terminals, and customer forces. Attention will be concentrated upon complexity and diversity in methods which could impede effective support in emergencies. The objective of installing, in peacetime procedures workable in wartime without change or with minimum change will be paramount.

Procedures employed by the several single manager agencies will be compared and analyzed. Close liaison will be maintained with OSD and departmental forms standardization and automatic data processing systems specialists. Consideration will be given to the development of a uniform priority system for order and shipping time consistent with the operating requirements of the requiring military departments (project 60-10).

Deficiencies in readiness and wartime capability reflected by the commodity single manager evaluation report have been referred to appropriate action agencies for validation and corrective action.

A working group, chaired by a representative of the OASD(S. & L.), with participation by the military services and the single manager operating agencies, will conduct the necessary research and analysis and will develop improved and simplified procedures.

The Office of the Assistant Secretary of Defense (S. & L.) will review these procedures and arrange for coordinated promulgation of approved procedures. Action to implement validated recommendations for correction of mobilization readiness and wartime capability deficiencies will be initiated by action agencies already designated (the military departments, Joint Staff, JCS or OSD) and will be coordinated with interested elements of DOD through formal staff procedures.

Project No. 60-12

Project title.—Improvement of the coordinated procurement program.

Objective.—To improve the coordinated procurement program by revising and modernizing applicable regulations, and by refining and extending program assignments.

Approach.—DOD Instruction 4115.1 requires complete revision and possibly the publication of separate policy instructions for plant and commodity assignments to provide the policy guidance, criteria, responsibilities, procedural detail, and current information on plant and commodity assignments, and to provide the framework necessary to create additional plant and commodity assignments.

A DOD working group has been established to accomplish the required revisions as described above. Based upon approved criteria and application of criteria, additional plant and commodity assignments will be created as required (projects 60-1 and 60-2).

The working group, composed of representatives of OASD (S. & L.), OASD (Comptroller), the military departments, and the Armed Forces Supply Support Center will draft the required revised or new instructions.

The military services, through a seminar to be sponsored by the working group, will provide field reactions to the revised or new instructions. Coordination of the revised or new instructions will be effected with the military departments.

Project No. 60-13

Project title.—Evaluation of the standardization program.

Objective.—Conduct an evaluation of the currently scheduled standardization program and adjust program plans to conform with actual and expected resources.

Approach.—Complete the current study of the program along with an analysis of the objectives, programing, and operations in the standardization area. The

program will be reemphasized and redirected as necessary to concentrate on essential projects. The following steps will be taken:

1. Review established Department of Defense standardization objectives.
2. Evaluate program schedules in relation to resources.
3. Evaluate the necessity of various standardization projects.
4. Evaluate the actual usage and compliance with specifications and standards.
5. Obtain industrial and professional standards associations' evaluation of military standardization efforts.
6. Analyze all evaluations with the AFSSC, the military departments and the Office of the Director of Defense Research and Engineering and develop revised standardization objectives, policies, and concepts, as necessary.

The OASD (S. & L.) has completed the review phase of this project. The OASD (S. & L.) will plan and schedule the evaluations and will arrange for participation by the Office of the Director of Defense Research and Engineering, Armed Forces Supply Support Center and the military departments. The final product will be revised Department of Defense directives, the Military Manual for Standardization, and the standardization schedules for fiscal year 1960 and 1961 all of which will be coordinated with the military departments.

Project No. 60-14

Project title.—Improve the utilization of the products of standardization.

Objective.—To develop means for achieving greater utilization of the products of the standardization program in support of supply management programs.

Approach.—Improved procedures and controls will be developed and published to insure that inventory records and requirements determination studies properly reflect approved standardization actions and that procurement actions give full consideration to applicable Federal and military specifications and standards. The following specific actions will be undertaken:

1. Complete a current study underway by OASD (S. & L.) on the use of military supply standards for supply items in inventory management.
2. Develop with the Armed Forces Supply Support Center and the Military Departments a Department of Defense directive on the use and control of military standards in inventory management.
3. Develop procedures with the AFSSC for effectively maintaining standardization documents to reflect inventory management experience.

The OASD (S. & L.), in collaboration with the AFSSC, will develop and coordinate the necessary Department of Defense directives. The AFSSC will institute the necessary procedural changes in the standardization program and will establish means of reviewing compliance with established standards in inventory management operations.

Project No. 60-15

Project title.—Extend the Adoption of Industrial Standards in the Department of Defense.

Objective.—To establish policies and programs to increase the knowledge of industry and the public on the Defense standardization program and its objectives; to promote greater participation of industry associations in the standardization program and to eliminate unnecessary duplication between Department of Defense and industry efforts.

Approach.—Develop and coordinate a Department of Defense instruction which will authorize the use of acceptable industrial standards and specifications in the Department of Defense with a minimum of coordination and which will prohibit the establishment of defense standardization projects which will unnecessarily duplicate industrial efforts.

Review the programs and potential in industry and associations to determine the scope of the industrial standardization effort.

Develop a program of indoctrination for industrial associations and professional standards associations to acquaint them with the standardization requirements of the Department of Defense and to solicit more active participation by industry.

Determine the current extent of duplication of industrial and military standardization efforts.

Develop a means of improving the distribution and maintenance of military standards and specifications required by industry.

The OASD (S. & L.), in conjunction with the Armed Forces Supply Support Center, will review industry potential and needs and will develop the necessary Department of Defense instructions. The AFSSC will establish and conduct

indoctrination programs for industrial groups. All efforts will be coordinated with the military departments and as appropriate with the Office of Director of Defense Research and Engineering.

Project No. 60-16

Project title.—Control entry of nonstandard items.

Objective.—To establish control requirements to prevent the entry into the military supply systems of items determined to be nonstandard or nonpreferred.

Approach.—Development of a policy which will provide that proposed new items of supply will be reviewed against existing standard and authorized items and assure that procedures to implement this policy are integrated with those developed under project No. 60-14. Development of this policy includes actions to—

1. Determine the utility of the products resulting from the AIR and standardization programs.

2. Establish proper method of distribution of the products of the AIR and Standardization Programs.

And in addition, study the desirability of—

1. Establishing control points of review in functional areas concerned, with item selection. Particular attention is to be given to the selection of components throughout the design, development and production phases of systems and end items and in the selection of spare parts at time of provisioning.

2. Establishing justification requirements and channels for review when nonstandard items are specified.

3. Establishing Department of Defense directives concerning control requirements.

4. Establishing program for evaluation of the effectiveness of controls.

The OASD (S. & L.), in collaboration with the Office of the Director of Defense Research and Engineering and the Armed Forces Supply Support Center will conduct studies and prepare and coordinate a DOD directive with the military departments.

Project No. 60-17

Project title.—Interservice support policy and principles.

Objective.—To establish basic policies and principles to stimulate and govern interservice support arrangements worldwide.

Approach.—A policy statement will be developed to include—

(a) The scope of logistics which are susceptible to interservice assignment.

(b) Criteria for determination when interservicing assignments should be made.

(c) Criteria for determination as to which military service will be assigned an interservice function.

(d) Provisions for the adjustment of resources attendant to interservice assignments.

(e) A fast, decentralized decisionmaking process to permit agreements at the lowest level practicable.

(f) Uniform definitions for the various techniques for interservicing including resource adjustments.

A joint working group from the military services, the joint staff of the JCS and the OASD (S. & L.) has completed a draft DOD directive to accomplish the objective of this project statement. The draft directive, modified in part by the OSD, has been submitted to the military departments for coordination. Comments from the military departments have been received and are being analyzed.

The OASD (S. & L.) will prepare a revised draft of the proposed DOD directive based on the comments of the military departments and the joint staff of the JCS. This draft will be submitted to the working group for group review and comment. The final draft will be coordinated with the military departments.

Project No. 60-18

Project title.—Development of optimum DOD depot requirements and organization structure consistent with military effectiveness and economy.

Objective.—To eliminate unneeded duplication in depot organization, administration, and operations.

Approach.—A proposed DOD directive providing basic policy to promote optimum utilization of multicommodity storage sites within each military service will be developed by OASD (S. & L.) with participation by the military departments. The proposed DOD directive will be coordinated with the military departments.

An analysis will be made of existing depot supply organizational structures (i.e., Army general and branch depots, Navy primary stock points, Air Force AMA's and weapons systems storage sites), supply distribution patterns and facilities to determine overlapping and duplicating areas susceptible to greater intraservice integration in accordance with the policy to be developed as indicated above.

The military departments will make this analysis and determine where consolidations will be effected.

Project No. 60-19

Project title.—Analysis of order and shipping time.

Objective.—To determine the optimum order and shipping time for materials flowing through the supply system, giving due consideration to the fact that the supply system must effectively support wartime as well as peacetime operations.

Approach.—The elapsed time between the placement of an order for material and receipt of the material must be as short as possible commensurate with the military essentiality of the item, the urgency of the need, and the economic consideration involved.

Increased emphasis should be placed on current service projects covering single line issue document and improvements in the requisition priority systems, and the projects of the DOD uniform supply documentation working group. The products of these projects will be incorporated in appropriate departmental and DOD instructions. The DOD instructions will be coordinated with the military departments. In addition, a uniform and optimum priority system for order and shipping time must be developed for use in single manager and interservice supply support operations.

A working group composed of representatives of all military services, chaired by OASD (S. & L.), who will conduct the analysis required to develop the uniform and optimum interservice priority system for order and shipping time. A DOD directive will be developed and coordinated with the military departments.

Project No. 60-20

Project title.—Preservation and packaging policies.

Objective.—To develop improved policy which will provide for the application of optimal preservation, packaging, and packing methods and materials required to protect military supplies during storage and shipping.

Approach.—A basic set of guidelines will be developed that will cover in more specific terms than present policies, the various policy aspects of preservation, packaging, and packing.

The OASD (S. & L.), with assistance from the military services, will develop improved policy and criteria covering preservation, packaging, and packing of military supplies. The results of the recently completed DOD packaging study will be used where applicable.

A revised DOD directive will be developed and coordinated with the military departments.

Project No. 60-21

Project title.—DOD-GSA coordinated storage space utilization programs.

Objective.—To develop policy and procedures for the provision of storage space to the GSA in active DOD depots.

Approach.—A DOD directive covering the policy and procedures for making space available to the GSA as requested will be developed. Such policy and procedures will give consideration to the following points:

(a) Relatively inactive bulk stocks of the GSA will be maintained and handled by the military department operating the active depot under the terms of the existing cross-servicing agreement between DOD-GSA.

(b) Space in active depots for retail issue of GSA stocks will be allocated to GSA on a tenant-landlord basis.

(c) Depots which are excess to the requirements of the military services will be provided to GSA only by transfer of ownership from the military departments

to GSA. If storage space is desired by GSA in inactivated, stand-by military depots, storage space will be provided under arrangements whereby the military departments will not furnish maintenance and operation either with or without reimbursement. Maintenance and operation will be provided for by GSA.

(d) When a military depot installation which has a GSA storage mission is to be inactivated GSA will be given the option of accepting transfer or operational responsibility under conditions outlined in "o" above, or removing material stored in accordance with current agreements.

Storage space and the facilities to be made available to GSA will be determined by the individual military departments based on requests from the GSA.

The proposed DOD directive referred to above will be developed by OASD (S. & L.) with participation by the military departments and will be coordinated with the military departments.

Project No. 60-22

Project title.—Evaluation of ammunition outloading and storage facilities.

Objective.—To provide an appropriate balance between ammunition outloading and storage facilities and requirements for such facilities, and the development of the optimum DOD distribution pattern for ammunition.

Approach.—A current study is developing the optimum DOD distribution pattern for the flow of ammunition from manufacturer, through storage, to the outloading terminal.

Based upon the selected DOD distribution pattern, the least desirable facilities will be recommended for inactivation. The study is being made by a consultant firm. During the course of the study, progressive steps are being coordinated with representatives of the Army and Navy and other OSD offices as appropriate. Upon completion, the study and its recommendations will be submitted to ASD (S. & L.), who in turn will coordinate the recommendations with the military departments.

Project No. 60-23

Project title.—Integration of supply and financial management techniques and controls.

Objective.—To assure that supply programs and supply controls, and budgetary and financial policies, procedures and controls are compatible and effectively support supply operations.

Approach.—The interrelated supply and financial management techniques will be reviewed and recommendations for corrective action, if required, will be processed to accomplish this objective.

A comprehensive study plan will be developed by a joint working group to accomplish the scope of the reviews. Currently available and applicable study results, including AFSSC project 59-2, which are available in the military departments, the OSD and the AFSSC will be utilized in the development of the study plan.

The study plan will be coordinated with the ASD (S. & L.), the ASD (Compt), the joint staff of the JCS and the military departments.

The review will be conducted by a joint working group which will develop conclusions and recommendations.

Personnel for the joint working group will be provided as follows:

- OASD (S. & L.) 1.
- OASD (Comp) 1
- JCS 1
- AFSSC 1
- Military departments (each) 2
 - 1 Assistant Secretary (FM)
 - 1 Assistant Secretary (Log)

The review will consider—

1. The advantages and disadvantages of stock fund operations under the "vertical and horizontal" concepts of organization and extension to the retail level.
2. What operating controls can be substituted for the currently prescribed apportionment controls.
3. The documentation and validation of problems attributed to stock funds and recommendations for solution.

The review program will include field analyses. The reports of the review team, together with the conclusions and recommendations will be coordinated as applicable within the DOD.

Evaluated conclusions and recommendations will be coordinated with the ASD (Comptroller), the military departments and the joint staff of the JCS by the ASD (S. & L.).

Approved recommendations for revision to administrative regulations and existing legislation will be processed through normal channels.

Approved recommendations will be processed by revision to existing regulation or legislation as applicable.

Project No. 60-24

Project title.—Improvement of commodity single manager progress report.

Objective.—To provide the single managers and OSD with adequate uniform management data to facilitate the supervision of the single manager operating agencies.

Approach.—Uniform minimum essential performance data which will permit the maintenance of consistent, continuous statistical data upon which to base evaluation of operations and measure progress will be developed for reporting on a periodic basis by operating agencies to the single manager and the Office of the Secretary of Defense.

The present single manager quarterly report will be revised to eliminate non-essential data, add essential management statistics, and improve format to facilitate review and analysis.

A proposed revised report format and instruction will be developed by OASD (S. & L.) in coordination with OASD (Comptroller) and coordinated with the military departments.

Upon coordination with the military departments, the current DOD instruction will be revised.

Project No. 60-25

Project title.—Development of management data for coordinated procurement program.

Objective.—To provide the military departments and the OSD with adequate uniform management data to facilitate the supervision of the coordinated procurement program.

Approach.—An interim management report has been installed on a trial basis. After 6 months experience, this report will be refined as required and established as a permanent report.

A working group, composed of representatives of OASD (S. & L.), OASD (Comptroller) and the military departments will develop the required report and incorporate it in DOD Instruction 41115.1, the master directive for the coordinated procurement program.

Procurement offices will compile and submit the report to their parent military departments for analysis and consolidation. Consolidated reports will be submitted by the military departments to OSD for review.

Project No. 60-26

Project title.—Surplus sale structure and management improvement program.

Objective.—To establish surplus sales office on an interservice basis, by consolidating existing sales points (315) into 35 new interservice sales offices; to establish one interservice sales information office on a national basis; and to initiate other management improvements as required.

Approach.—A comprehensive review and analysis of this area has been completed and recommendations developed calling for the establishment of surplus sales offices on an interservice basis by consolidating 315 existing sales points into 35 new interservice sales offices and establishment of one interservice sales information office on a national basis.

Other management improvements call for establishment of an integrated surplus disposal training program, and improved merchandising methods which include changing the basic terms of "excess," "surplus," and "foreign excess" for more realistic terminology such as "redistributable property" for "excess property" and "salable or marketable property" for "surplus" and "foreign excess property." In addition, consideration will be given to taking such action as is necessary to the development and utilization of more realistic values than acquisition cost for reporting of surplus and foreign excess personal property.

An OASD (S. & L.) military service working group has completed a review and analysis of the surplus sales structure. This same working group will consider additional management improvements and develop subsequent recommendations. The approved program will be published in a DOD directive

after coordination with the military departments. Necessary changes in existing legislation will be processed through normal channels.

GLOSSARY OF TERMS

Armed Forces Supply Support Center—Actions of

Actions indicated as a responsibility of the Armed Forces Supply Support Center will be undertaken after approval by the Armed Forces Supply Support Council. Recommendations made by the AFSSC will be subject to the approval of the Armed Forces Supply Support Council.

Coordinated procurement

Single procurement assignments on either plant or commodity bases.

Designated classification agency

An agency which has been given the item classification assignment after coordination by the military departments or the Armed Forces Supply Support Council.

Directly related to a weapon

A component, assembly or part of a weapon and directly associated and specialized: (1) guidance equipment, (2) weapons handling and launching equipment, (3) training devices, or (4) tools and test equipment, including components, assemblies, and parts therefor.

General Services Administration

As used, relates to the following facilities and sources of supply:

1. GSA stores depots.
2. Federal supply schedule.
3. National buying program.

Homogeneous groups

When used in connection with the single-manager technique: "Items of supply with common basic material content, produced by a common segment of industry or items of supply having the same general functional application." When used in connection with the coordinated procurement program: "Items of supply with common basic material content, produced by a common segment of industry."

Interservice supply support

All material management functions at the depot (primary stock point) and inventory control point levels are performed by one military service for the benefit of two or more military services. (No inferences should be drawn from this definition as to the funding aspects of interservice supply support.)

Items of supply

Material within the scope of the Federal catalog system carried in stock at any level to support operations. (Excludes research and development items and weapons as defined below.)

Material management

Management of an item of supply from determination of requirements to disposal. (In some cases certain functions may be excluded.)

Primary operational mission

Functions as assigned to each military service under the respective "primary function" sections of DOD Directive 5100.1 dated December 31, 1958.

Weapon

Aircraft, vessels, missiles, artillery, small arms, combat vehicles, air defense systems, air defense communications systems, and special weapons.

Mr. McGUIRE. The keynote of this program is integration of material management. Almost 2 million items of supply are included in the program for review.

We intend to make greater use of the GSA for supply of commercial items and there are projects which will improve and make uniform the procedural relationship between the DOD and GSA.

Senator O'MAHONEY. This is a departure. It is something you intend to do in the future.

Mr. McGUIRE. I am not happy, Senator, and I think I can speak for the services now, they are not content either with the amount that we are using GSA. I hope I will have the opportunity later this afternoon to discuss where we can utilize GSA in those areas of the commercial type items that are common and let them be our supplier and take care of this inventory management problem.

I do not know why we should waste our time on that. It will not win a war if we have wastebaskets or not, is my position on the matter.

Senator O'MAHONEY. However, my point is that is a program you are now instituting. It is a new program.

Mr. McGUIRE. We have it underway. We have done some of this. The Air Force has done a lot of it.

Senator O'MAHONEY. How much do you expect to do?

Mr. McGUIRE. I can get that figure and show you last year, or I will show it to you progressively. In 1958 from GSA we did \$364.5 million. A substantial part of that, \$196 million, was in the Air Force.

This is when we started asking why not in the other two services. In 1959, we did \$482 million. That is a fairly substantial amount of progress percentagewise, but dollarwise, to me, we have not even tapped the till on this.

Representative CURTIS. I was just going to ask you to distinguish, as you discuss these, between procurement and distribution. Is this procurement and distribution?

Mr. McGUIRE. Both.

Representative CURTIS. Both?

Mr. McGUIRE. Both.

Senator O'MAHONEY. You would say that you have not even tapped the possibilities?

Mr. McGUIRE. I agree. I think that our rate that we are now running is about 525 to 550. I think with the steps that we put in in the last 3 months to emphasize this, it is conceivable, and I would not care to be committed on this point, Senator, we could go as high as 650 this year.

Senator O'MAHONEY. 650? What do you mean?

Mr. McGUIRE. \$650 million.

Senator O'MAHONEY. \$650 million?

Mr. McGUIRE. That is right.

Senator O'MAHONEY. Can you ever get to a billion?

Mr. McGUIRE. I think so.

Senator O'MAHONEY. There is a tremendous group of figures here, you know, that mean very little to us, at least to me, without asking many seemingly hostile questions. They are not hostile at all. We are attempting, however, to determine how much you can reduce from the budget of the Department of Defense if you have real control of this duplicated purchasing.

NEW ATMOSPHERE IN THE DEPARTMENT OF DEFENSE.

Mr. McGUIRE. Senator, your interest in this program and your amendment has been of considerable assistance to me in getting some of these things accomplished. I do not mean that I got them accom-

plished, but I can tell you that the atmosphere in the Department of Defense and the realization of what you are talking about is better understood.

I do not say that to flatter you at all. It is a fact.

Senator O'MAHONEY. Then you know what we are after?

Mr. McGUIRE. I think so.

Senator O'MAHONEY. All three of us up here have had a lively interest in this for many years and we see only slow progress.

The way you are talking this afternoon indicates that perhaps there may be more progress than I have deemed possible.

MORE COOPERATION WITH THE GENERAL SERVICES ADMINISTRATION

Mr. McGUIRE. I know that yesterday the matter on the establishment of the so-called handtool section came up, as to whether or not there were rumblings that they were seeking to take this business away from GSA.

I can assure you that, as far as I am concerned, we are not. I do not mind having the warning. I do not think it is necessary, but I just have no objection to it.

The thing we are talking about here is commercial common type tools. They should go to GSA, except in very unusual cases where it is going to take considerable justification by someone not to give them to GSA. There is the specialized military type of tool. This is not a hammer. It is not a screwdriver or a hacksaw blade. It is a special tool that usually goes with a piece of equipment. I doubt if GSA could buy them or has that capability at the moment. We would expect to retain those.

In the handtool business, we have a business combining both of these categories of roughly \$25 million a year. I think \$7,500 000 or thereabouts, primarily from the Air Force, and I cannot tell you the exact amount because there was some local purchasing in there, has been going to GSA.

I would not be surprised to see this GSA figure jump very high as a result of our new single manager assignment. This is the reason we are forming it, to get it all into one area. The beauty of the single manager is that you can isolate a block of items and you can set up a P. & L. operating statement and get a measurement of what you are doing.

This is my opinion on that question that was raised yesterday, Senator.

Senator O'MAHONEY. Are these single managers military men, or civilians?

Mr. McGUIRE. The single manager himself, so called, is the Secretary of the service that has the assignment. Obviously he personally does not manage the operation. The executive director manages it, and reports to the service secretary.

These men are all, I believe, military men, but the staffs of the single managers are predominantly civilians. We are moving in the direction to get a high level of civilian continuity in these operations so that we do not have a rapid turnover.

I would point out to you, however, that there is a value in having informed military personnel intermixed with civilians because people who sit in warehouses know very little about what is required in the field and cannot, therefore, raise informed questions. You have to have a mixture, but in the proper degree.

Senator O'MAHONEY. Who has authority, the military man, or the civilian?

Mr. McGUIRE. Well, the Executive Director, Senator, is a military man. He has, in your terms, the authority, but there are numbers of civilian people also who have authority in varying degrees down the line.

Senator O'MAHONEY. You came from Montgomery Ward. That makes it clear that you have had experience with business purchasing and big distribution. Do these military managers have such experience?

Mr. McGUIRE. I do not know any of them that have had that specific type of retail experience, but I would point out to you that people like myself, Fred Bantz, who is in the Navy and had a comparable job to mine, came from J. C. Penney, or Ray Fogler before him—have had some retail experience. Mr. Hagen, who works in the supply center, was with J. C. Penney.

I do not think there is any place in the military that gives us the same kind of experience we have in Ward.

Senator O'MAHONEY. Have you read the law, or the particular sections which deal with this matter?

Mr. McGUIRE. I think I have, sir.

Senator O'MAHONEY. Could you tell me why Secretary Wilson thought the Department of Defense should be exempted?

WANT TO KEEP RELATIONS WITH GSA FLEXIBLE

Mr. McGUIRE. I have never discussed this particular point with Secretary Wilson nor was I in it at the time of that decision, but it has been my understanding that he felt that because of its peculiarities in requirements and its relative size, the Department of Defense should have authority commensurate with its responsibility. I think that possibly, although I do not know this, somebody may have had an argument about the ability of GSA to respond under certain conditions.

We have worked closely with GSA and we are trying to utilize GSA, as I see it, now and in the future.

I am not happy about how far we have gone.

Senator O'MAHONEY. Does the Department of Defense now enjoy an exemption?

Mr. McGUIRE. Yes, I think they do, sir.

Senator O'MAHONEY. Do you think that should be allowed to remain?

Mr. McGUIRE. I do, yes.

Senator O'MAHONEY. I will be interested in your explanation of that.

The CHAIRMAN. I think that would be very interesting because you have been saying that, in your judgment, these functions or these items should be turned over to GSA. Yet the President's Executive order in 1954 gave to the Department of Defense the power to exempt

themselves. Why would it not be a good plan to have another Executive order revoking that 1954 order so that either the President or the future Secretary of Defense would not be tempted to exempt himself or exempt the Department? Why not?

Mr. McGUIRE. Senator, I told you that I was not in this particular decision. I know of its existence. I am speaking in terms of flexibility. I am also saying that because we have that exemption I am not taking it necessarily as a mandate. I shall take advantage of what looks like a good deal to me.

The CHAIRMAN. You know the phrase in the Lord's Prayer, "lead us not into temptation."

Mr. McGUIRE. I have been tempted many times in my life.

The CHAIRMAN. It would be a very good thing if you had another Executive order which would enable Truman's order of 1949 to continue.

Mr. Staats this morning, representing the Bureau of the Budget, said he would favor the end of exemption. If the Bureau is in favor of this proposal and if you say you do not want to exercise the powers yourself, why do you not favor the end of exemption and then with the Budget Bureau and Defense together we will get it through?

Mr. McGUIRE. Senator, I do not think I said that I did not want to utilize the exemptions. I still believe we should have this exemption. I am saying that if we find an item or a category that could go to GSA, in spite of an argument that could be made, we can do it the other way. I am going to do it the cheaper way or the most effective way.

As to the Bureau of the Budget on this particular matter, I have never heard this expressed by the Bureau of the Budget. However, I understand this is in their province and if they want to recommend it, I am sure the Department of Defense would examine the situation. That is their privilege, I am sure. I had not discussed it with Mr. Elmer Staats. I understand he did make the statement this morning. It was a surprise to me. They have never raised this question with me.

Representative CURTIS. It would seem to me that your policy that you have expressed you are following of wanting to increase the use of GSA would be in accordance with the removal of this exemption because you are going ahead with what you can. It is just a question, it seems to me, in the ultimate decision where there was a dispute between GSA and the military, that the military could overrule, and yet I would say this: that from the standpoint of past experiences the incentive to go ahead and get this program on the way would be more in the GSA's sphere than it would be the military. Therefore, I would think it would be good to have it changed.

Mr. McGUIRE. I think you are asking me for an opinion. I tried to give it to you honestly.

In the contention upon which you are putting the question to me, I would be silly to say that I had really studied this thing in great detail. I have not. I understand Mr. Staats made the statement this morning. I presume I will hear more about it from Mr. Staats.

Representative CURTIS. I think there is one good thing. Your testimony indicates you are following out what we would like to see done by the removal of this.

Mr. McGUIRE. I might say this, Mr. Floete has been very actively working, and I think very well, in what is known as the Federal Procurement Regulations. The Federal Procurement Regulations should seek to cover all Government agencies in order that there be a common understanding with industry.

We ought to try to make it as simple as we can.

On the other hand, the kinds of procuring problems that Veterans' Administration, for example, get into and some of the other agencies, GSA, to be specific, are not necessarily the kinds of procurement problems that we get into.

My position on this has been that where we have the same common problem, we should get together with GSA and agree on regulations which can then be issued jointly in ASPR and in the Federal Procurement Regulations.

We happen to have the ASPR regulations. It is the only place in Federal Government where there are comprehensive procurement regulations.

Representative CURTIS. Would the Senator yield?

Senator O'MAHONEY. Certainly.

GSA AUTHORITY OVER SURPLUS DISPOSAL

Representative CURTIS. This is a collateral point, but it again relates to the relationship of the GSA and the military, the disposal area. As I understand the regulations or the law, GSA is the agency which actually takes care of the ultimate disposition of surplus property that is surplus to the governmental needs.

Mr. McGUIRE. That is right.

Representative CURTIS. Yet in the areas of these items that are generated in the military, the GSA then passes on back to, say, the Army, the authority for handling the actual disposition. In other words, the Army will sell directly to the public in these surplus sales, and I was just wondering why. That strikes me as being not a very efficient method of proceeding. We want the public to know what is up for disposal and if you have all sorts of agencies that can dispose instead of concentrating it in one, you tend to have less buyers.

Would you comment on that?

Mr. McGUIRE. I would be glad to, Congressman.

First of all, GSA does have the regulatory authority of selling surplus property under the law. This is their responsibility.

In the area of military, so-called "disposal," this is surplus, if you will, generated by the Department of Defense—

Representative CURTIS. But not military items themselves.

Mr. McGUIRE. Anything within that category that we have, even, of course, if we bought this originally from GSA conceivably could come out the other end of the lopper.

Representative CURTIS. That is right.

Mr. McGUIRE. We are handling this.

The truth of the matter is, and I see nothing wrong with it, we have about 95 percent of the material of this type due to the nature of our business. Our business is one that creates surplus to some degree. In other words, we wear out tanks, we wear out ships, and we wear out submarines or airplanes. In order to maintain a strong

defense position, we must replace these items with more modern weapons as they come along. This is done through all of the military installations. GSA could do this, sir. They can send a crew in there to supervise it.

Representative CURRIS. Let us get across this line. No one is selling any tanks to the American public. No one is selling any old bombers to the public. We are talking about selling typewriters to the public and paint, the 10 percent of these items, items on this list.

Now, that is the question I am asking. Why is it not better for GSA to handle the disposition of it?

Mr. McGUIRE. GSA can take this on if they care to.

I think there would be a substantial raising of expense because in the mere handling, accumulating, sorting, and lotting of this material, there is a substantial amount of work involved which would be partially duplicated by GSA if they came in.

I think the step that I mentioned where we are consolidating our offices and having one central bidders list in one place that a man writes to is a step in the right direction. It may well be that GSA having a smaller stake in the magnitude of this thing might say, "We will also do the same thing and use the same office." It could work that way.

Representative CURRIS. Yes, but the duty of GSA is one and in the military it is the Army, the Navy, Air Force, Marine Corps, and heaven knows what.

The point I am trying to get at is, here we are trying to get the most dollars for these surplus materials from selling them to the public, and it is quite a business these days of going around to the various agencies that actually can do the selling and if you are in the know you can do pretty well, but if it were concentrated in one spot, the smaller businesses and other people would get in on this business and bid for it.

Incidentally, I put in the Congressional Record last week a report on the use of closed TV circuits that the Army used recently, which is quite interesting, not conclusive, but to demonstrate the techniques that did develop, and why should the Army be in that kind of business? For heaven's sakes, that is the type of thing I would expect GSA to be developing, not military people.

Mr. McGUIRE. We have the responsibility for handling our surplus under the present system.

This is physically located in areas, just as I presume GSA in its regional setup has physical locations.

If your point is the consolidation of the issuance of the lists to the public and so forth, we are taking steps to do that in the biggest end of the business right now.

You provoked an interesting question. It would seem to me that, having the biggest end of it and having handled most of these items and knowing what they are and having developed them, to get them to that point, if we just simply turned this material over to GSA it would require more manpower to duplicate some of the work we have already done.

Representative CURRIS. I doubt if that would show up in light of the kind of stuff you can sell to the public.

MR. McGUIRE. With our criteria for selling, the auction methods we have tried, the sealed bid method, and you mentioned this television one which has very interesting implications, this widens the field in different areas and to the small businessman in particular. I believe that we are doing everything at the moment that GSA can. We work very closely with them and they review our program.

It was proposed once to me, which I turned down, that we take the entire program and give it to GSA.

Now, what this fellow was proposing to me was to let the other fellow worry about my problems. This is not my idea of how to run this business.

MILITARY PERSONNEL SHOULD CONCENTRATE ONLY ON MILITARY PROBLEMS

Representative CURTIS. Of course, there are reasons why I would like to see it in GSA, but one reason is when we get it over there, we take the uniform off it, and it is very important to get the military uniform off, because we always get into this element of security for military use and so on.

Furthermore, I think the extent to which we can get the military personnel to deal with military problems and off of problems that are of a civilian type is all to the good. Certainly disposal of this kind of surplus to the general public is nothing that we need to train men in military camps and military techniques in order to engage in.

That is all I was driving at.

I did want to bring it up at this point because we were in the discussion of the relation of GSA to the military establishments.

MATERIEL MANAGEMENT ASSIGNMENTS

Senator O'MAHONEY. Thank you.

Mr. McGuire, let me get back to this defense materiel management program. Will you turn to your prepared statement. This I understand to be a new development, a new program. You say:

The Defense Materiel Command program is a related group of 26 specific projects which the military departments and the Office of the Secretary of Defense have agreed upon for accomplishment during fiscal year 1960.

Give me some of those 26 specific projects, please.

Mr. McGuire. One is the determination of materiel management assignments, and I will give them to you, sir, by title and will go back to each of them and amplify them if you wish. I think they cover the whole scope of our problem.

Senator O'MAHONEY. OK.

Mr. McGuire. I can give you the status of each of them.

Another is the development of the management method criteria that we will use.

Another is the item range for mobilization for war readiness.

What this means is if we are fighting a war on mobilization reserve stock, we do not need nine kinds of toothpaste. We only need one.

In peace we can afford to have several different kinds.

Everything across the board does not get this mobilization treatment. We need a toothbrush and a toothpaste and it will do the trick. In other words, we need essential items of survival and not luxuries.

As we reduce the range of items we store in mobilization reserves, we are going to develop lots of excesses because the old war reserve base was not built on this premise.

I think it is a very sound premise and the military have accepted it as sound.

Another one is the policies for the management of decentralized items of supply.

Another one is the procedural doctrine for the acquisition of supplies from GSA. This is an emphasis on the thing we have been talking about.

Another one is the selective review of the scope of coverage of the Federal catalog system.

Another one is the inventory review and cleanup program.

Another one is revised excess screening procedures.

I have touched a little bit on that. This is a continuing process. As we go in and do one thing we learn something else or we may find we put something into effect that is wrong and we may have to change it. This one is practically complete.

Another one is international cataloging. This is very important. If we are going to fight a world war with allies we should have better identification of the items we are talking about. The NATO nations are starting to use our cataloging system. Australia has taken it up. Canada is considering it. Actually a number of our local States have taken it on also. It is important if we are to pool assets, or even to fight side by side, that we try to get, as much as possible, a common identification system. We may learn something from them also. We have in certain areas. It is a two-way street.

Another is the development of policies for the supply of common items to oversea commands. We are planning a test on this in Hawaii. This is the extension, really, of the single manager system outside the territorial limits of the United States.

Another is improvement of single manager efficiency and wartime readiness; also the improvement of the coordinated procurement program, and the evaluation of our standardization program. This is the area where, with all good intentions, I think we have spent too much engineering application on trying to standardize.

"EYEBALL" CONTROL

If I may use as an example a wastepaper basket, I can standardize by setting six of them out in front of me and deciding I need a medium priced one and maybe a little better priced one. That is all I need to do to standardize wastepaper baskets. I call it eyeball control.

We think we can apply more of our engineering efforts to the highly technical fields of standardization. In addition, instead of imposing on industry, and I do not say we have, but I want to be sure we are not, military standards where there are already acceptable and usable commercial standards in industry, let us use them. We do a lot of this right now in the commercial automobile field. We do not need a standard for a commercial vehicle.

Representative CURTIS. It would be interesting to know how far we have gotten on some of these; for instance, your eyeball control thing. I think on toilet articles, 14-percent common uses are present—

Senator O'MAHONEY. But, Mr. Curtis, this is a plan for 1960. It is just being worked out now. I want to find out how extensive it is going to be.

Representative CURTIS. That is right, but I think in some instances, Senator, they have started on it and have had some results.

Mr. MCGUINN. Senator, I do not want to be misleading on this. I want to be very clear as to what I am saying to the committee because I need your help in these areas. Some of these programs are not new. It is the expansion and emphasis on these programs that are agreed on by the military services as something that is necessary to do. They are telling me they want to do it and are in agreement with us. This is an important first in psychology.

Secondly, these are in various stages of accomplishment.

For example, I think you mentioned the one on the eyeball control, as I called it.

Let us take first this item range for mobilization of war readiness. We sent out a task force to develop this thing and try to put into perspective what we were really after. The task force report is complete. Two instructions to implement this have been developed and are now out for service review and for the Joint Chiefs' review. Obviously, this gets into strategic capabilities and the Chiefs must have a say in this.

I might also add there is another facet to this thing. We contend that the big emphasis on the mobilization reserve should be in the important items and not in the low-value, long-span items. This is the one that might be a 20-cent item and for economical purposes it might be better to buy a year's supply at once. We will use that type of length of purchase, if you will, internal pipeline, as the mobilization reserve rather than create a separate mobilization stock.

The accelerated item reduction program is not new. The air program started about a year and a half ago and the first place we tried this was in the so-called housekeeping type items, and there we made some very substantial cuts. It is a combination of cleaning up the catalog and inventories. We may have a catalog number with no inventory behind it and this program is a means of purging the catalog.

If we have a catalog number that calls for a gallon can and another for a four-quart can, they are both the same thing and this program provides for a recheck on that. It also gives an identification of the item as to its use, its purpose, and why we own it. Is it standardized? Is it a substitute item for another kind of an item? We have made tremendous progress.

Do you know the number of items on that first 14,000?

Mr. RILEY. They are the so-called housekeeping items. We looked at about 14,000 items to see what kind of result we would get and, if I remember the figures correctly, about 69 percent of those items were declared nonstandard.

Senator O'MAHONEY. How many of these items were shipped abroad?

Mr. RILEY. I think probably, Senator, you would find some of these items in our overseas inventory.

Mr. MCGUIRE. What we are saying is you do not need to carry this variety of items. We are not declaring them surplus; we are keying them as substitutes and when they are eliminated from the service then we will buy the standard item.

Senator O'MAHONEY. I notice in the second paragraph on page 11, you say: "Almost 2 million items of supply are included in the program for review and determination."

Mr. McGUIRE. That is correct.

Senator O'MAHONEY. What type of items are those?

Mr. McGUIRE. All kinds of items. We can give you a specific list.

Mr. Riley?

Senator O'MAHONEY. Are they in common supply?

Mr. RILEY. There are a lot of items that are common to two or more services.

General supplies has about a hundred thousand items and a lot of these are common.

We are now looking at the industrial supplies. There are about 520,000 items in that category and there are a considerable number of items that are common to several services in that area. And we are also reviewing the construction type of material. These are the categories that do have a high percentage of commonality and this is the reason why we have selected these areas to take a look at first and see if they are susceptible to consolidated management.

Senator O'MAHONEY. If you do not know now what items of common supply are—

Mr. McGUIRE. We do.

What I am trying to emphasize is I just think there ought to be more commonality, and by going through this process I think we will develop the true facts of life and prove that many of these items are not different really. One of them may be a pencil with a red eraser and another a pencil with a green eraser. They are really the same item. Let us call them the same item.

Senator O'MAHONEY. It was reported to us that in the various defense branches there is an excess of supply in every single department. Do you find that to be so?

Mr. RILEY. Yes, sir. We have excesses in the Army, Navy, Air Force, and Marines.

Mr. McGUIRE. I would like to go back, Senator, and refer to my discussion with you on what is excess.

Excess does not necessarily mean surplus to the Department of Defense. We are on one side tightening down on the requirements and when we reevaluate our needs we are creating so-called excesses.

Then we are trying to match assets and requirements so that we can use these excesses.

Senator O'MAHONEY. Do you have any authority over requirements?

Mr. McGUIRE. I surely do.

Senator O'MAHONEY. Can you tell the generals in the various departments that they may not order more than so and so?

Mr. McGUIRE. I have done it.

Senator O'MAHONEY. You have done it?

Mr. McGUIRE. Yes, sir.

Senator O'MAHONEY. Congratulations to you.

Mr. McGUIRE. Some people think I have too much authority.

Senator O'MAHONEY. May I ask to whom you report?

Mr. McGUIRE. To Mr. Gates.

Senator O'MAHONEY. You are just under Mr. Gates?

Mr. McGUIRE. Yes, sir.

Senator O'MAHONEY. Have any of your decisions been overruled?

Mr. McGUIRE. I do not know of any, Senator. We work very closely and, I am happy to report, have developed extremely close relationships in the field of requirements guidance. The basis for this is strategic planning. How do you implement this as to what you need to have 4 or 5 years from now? By the very nature of the work we are in, and the problems we face, and the kind of weapons we are phasing in versus the kind of weapons we are no longer depending on, makes for maximum change, as you can readily understand.

I have excellent relationships also with the Comptroller. I think this is a fair statement to make and I do not want it misunderstood: I think that with respect to the Comptroller we are both talking about the same thing and seeking the same objective. He has a fiscal responsibility and by fiscal controls he tries to accomplish certain things.

I have a responsibility that I am trying to emphasize by item control.

What is the item? Have we too much or too little? When you match these two things together you are getting closer to retail merchandising.

We are far from perfect. We have a lot to learn.

Senator O'MAHONEY. I have taken a lot of your time, Mr. Secretary.

Mr. McGUIRE. I appreciate the opportunity.

Senator O'MAHONEY. I would like to have you proceed with your statement.

STORAGE AND WAREHOUSE PROGRAM

Mr. McGUIRE. In our storage and warehousing program the number of square feet of warehouse space has been reduced to 342.4 million square feet since 1954, a reduction of 27.7 million square feet. By June of 1962 plans provide for further reduction of an additional 18.8 million square feet. We are continually reviewing depot operations and it is anticipated that further reductions will be made.

The CHAIRMAN. Just a minute. On this question of storage and warehousing, these are the figures for the major supply depots?

Mr. McGUIRE. That is correct.

The CHAIRMAN. The figures which we have are for all depots both major and minor. We have a total figure which is larger than yours.

Mr. McGUIRE. I believe your figures include some of the smaller buildings and posts, camps, and stations, and that type of thing.

The CHAIRMAN. At the end of the morning session, I introduced figures on the percentage not used drawn from the depots of the various services which showed at least 10 percent not used as of June 1959. Are you asking in the coming military construction budget for additional warehousing space?

Mr. McGUIRE. No, sir.

Mr. RILEY. No, sir. We have just completed a review with the Comptroller of depot space and there is none in the budget. There is some small warehouse construction, but this is for special weapons.

The CHAIRMAN. So that you have surplus space and you are not going to ask for new construction for warehousing?

Mr. McGUIRE. I will go further than that, Senator.

We are working with Mr. Floote trying to point out to him where we have space in an area which he can use instead of leased space. This gets to be a slow process, but at least we have identified these areas, and what I am seeking to do is to set up a system so that we empty the storage space it is not diverted to some unjustified use. I am trying to take it off the market.

Representative CURRIE. Is this servicing of warehousing that you mentioned with GSA in existence for the three services?

Mr. McGUIRE. Yes, sir.

Representative CURRIE. In other words, you would say on warehousing, at any rate, we have a unification between the four services?

Mr. RILEY. We not only have a cross-servicing arrangement between the services, but we also have cross-servicing with civilian agencies that use space.

A good example is the strategic stockpile.

Mr. McGUIRE. We have set up, as the committee knows, and I am not so sure you encourage it, a standard rental rate so that you can understand what you have to pay for this and get on with the business. Let us use it.

The CHAIRMAN. Go ahead.

PROCUREMENT POLICY AND METHODS

Mr. McGUIRE. The committee has expressed an interest in the various methods of procurement used by the Government. Like the civilian agencies of the Government, the Department of Defense buys both by formal advertising and by negotiation.

Negotiation includes our competitive small purchase procedures under \$2,500, which last year ran at 82.9 percent of our total purchase transactions. "Negotiation" also includes many other transactions which are subject to either price or design competition which make up a very high percentage of our procurement dollars.

The CHAIRMAN. Just a minute. This is 82.9 percent of transactions?

Mr. McGUIRE. That is correct.

The CHAIRMAN. But not 82.9 percent of dollar volume.

Mr. McGUIRE. That is correct.

The CHAIRMAN. What percentage of dollar volume?

Mr. McGUIRE. Do you have that?

This is Mr. Bannerman, head of my procurement area.

Mr. BANNERMAN. All purchases under \$2,500 in 1959 amounted to 4.7 percent by dollar volume.

The CHAIRMAN. That is just the point, you see. The figures which we have been discussing are not on the number of transactions, but on dollar volume. We have been pointing out that in terms of dollar volume formal advertising and competitive bidding only accounted for 13.6 or about 14 percent of the total negotiated for 83 percent, so that your statement here that 83 percent of the transactions cannot be by competition, and therefore that these figures by implication are not so striking, is beside the point, because those small transactions, though they form 83 percent of the transactions, form, as you say, only 4 percent of the dollar volume.

Mr. BANNERMAN. We were not trying to suggest that there is anything the matter with the figures

We were simply trying to discuss it both ways.

The CHAIRMAN. I want to enter a caveat, so to speak, so that you would not sweep us quite off our feet.

Mr. BANNERMAN. In this sentence we are discussing the number of transactions. In the very next sentence we discuss the dollar volume.

Mr. McGUIRE. I think our reports we send up during the course of the year appraise this action on both sides. We will get into it deeper.

I point out to you by the very nature of the kind of thing we are negotiating such as the *Nautilus* submarine or such as a B-70 or B-52, whatever it may be, this is big money in itself. A few transactions make a sizable dollar total here.

I think you have to look at this thing in both ways to come to your conclusion.

Representative CURTIS. Could I ask on this point?

Take the *Nautilus* submarine. You would regard that as one transaction even though the prime contractor under the way it was procured would engage in quite a number of transactions, many of which would be by advertised bids for component parts.

Mr. McGUIRE. That is right.

Mr. BANNERMAN. Our figures, both those you have on the board and those we are discussing here, deal only with numbers and dollars in prime contracts and do not discuss what happens in subcontracts.

I may say to you it is most unusual, I don't know of any case where a prime contractor has engaged in what we in the Government call formal advertising. They do have, very frequently at our insistence, a high degree of competition among the subcontractors, but this is true in all business.

Representative CURTIS. The reason I mention it is that Admiral Rickover in some testimony and in certain conversations has said that a great deal of the *Nautilus* submarine was procured under advertised as opposed to negotiated bidding.

Of course, he could not refer to the prime contract. I interpreted he was referring to components. If that is so, that becomes the key question, as to what the Department of Defense is doing, reaching beneath the prime contractor to see whether we are producing—

Mr. McGUIRE. The subcontract tier, you are talking about?

Representative CURTIS. That is right.

Mr. McGUIRE. I intend to address myself to that because this in my opinion is a very important one and not only deserves more attention than it has gotten in the past, but it will continue to have to have it.

Representative CURTIS. I am happy to have you say that.

Mr. O'MAHONEY. Before you proceed, may I ask you to give us a little amplification of this sentence beginning with the quoted word "negotiation."

Now, what is the price of design competition?

Mr. BANNERMAN. Senator, a very large number of our so-called negotiated transactions—I am now talking about prime contracts—are in fact competitive. We get price competition between a number of prospective prime contractors even for some of our important weapons. There is a large number of contracts, however, particularly in the most advanced fields such as our new missiles, where the competition is at the outset among, frequently, a fairly large number of companies who are competing for design, where we have to select

that design or that combination of management, design, and potential productive capacity over the ensuing years, that is likely to be most successful in the missile field.

This competition is a very real thing, but it does not usually show up as a price competition because at the outset—

Representative CURTIS. You say price competition?

Mr. BANNERMAN. No; I think we say either price or design competition. I was trying to describe both.

Representative CURTIS. It is either/or, is it not? It is distributive?

Mr. BANNERMAN. Yes, sir.

Representative CURTIS. You spoke of missiles?

Mr. BANNERMAN. Yes, sir.

Representative CURTIS. Now give me an instance of competition in a contract for missiles?

Mr. BANNERMAN. I don't know that I am prepared to give you a specific instance, but I do know as a matter of selection, for instance, in the Air Force they have a very comprehensive system set up for putting out proposals, evaluating proposals, and determining on the basis of these factors—principally of design, management, productive capability—which of a number of competing proposals will be the successful contractor.

That is what I was referring to when I said design competition.

Representative CURTIS. Was there design competition for the Atlas?

Mr. BANNERMAN. On Atlas I cannot answer. That is quite an old contract.

Representative CURTIS. It is our best missile, is it not?

Mr. McGUIRE. I don't know the answer to your question. I shall be glad to get the answer for you, Senator.

Representative CURTIS. Suppose you do.

Mr. BANNERMAN. The Atlas was under development for many years before it became a production contract.

Representative CURTIS. Well, it is interesting to know whether the contract was given by negotiation or given by competition.

Mr. McGUIRE. I would say, and I am completely doing this without knowledge of the real facts, but my guess is on the Atlas contract—

Representative CURTIS. Let us get the real facts, Mr. Secretary. Communicate them to Senator Douglas.

Can you give us a figure for the percentage of our procurement dollars, a very high percentage of our procurement dollars.

We have here the percentage of transactions. Why not procurement dollars?

(The material referred to was later received for the record as follows:)

At the end of World War II, the Air Force initiated two development programs for a long-range strategic warfare missile. The first pilotless aircraft configuration using air-breathing engines was assigned to the North American Aviation Co., and later became the Navaho program. The ballistic rocket approach was contracted to Convair and was designated Project MX-774.

During 1946 and 1947, three MX-774 vehicles were tested with limited success. The economy review of the Department of Defense programs in late 1947 caused the MX-774 to be canceled. Convair continued the program on corporate funds from that time until late 1950 when the Air Force again funded a small study contract to reinstitute the long-range rocket program.

The present Atlas program has actually evolved out of the original MX-774 program which was initiated in 1948 as a part of the Air Force efforts to achieve a long missile capability.

In an effort to support the reorientation and acceleration of ICBM program, in late 1954, a missile study program was established using multiple contractor sources. Convair, Lockheed, Douglas, and Martin were requested to participate in the ICBM design competition. Douglas Co. declined the offer. Subsequent to the submission of these studies, the Von Neumann committee recommended the retention of Convair as the airframe contractor. Due to their previous work, it was possible to achieve an ICBM capability approximately 1 year earlier with their design. North American Rocketdyne was selected as the propulsion contractor because they were the only source in the United States at that time. All other associate subsystem contractors for the Atlas system were subsequently selected by competitive source selection procedures.

Mr. BANNERMAN. Negotiation as a total of procurement dollars, I think is accurately portrayed on the chart you have before you here.

Now, the sentence says that a high percentage of that negotiated amount is subject either to price or to design competition.

Representative CURTIS. I understand.

Mr. BANNERMAN. Now, I can give you a figure on that. About 90 percent of our negotiated procurement has one or the other of these types of competition.

Representative CURTIS. About 90 percent of your negotiated contracts is subject to either price or design competition?

Mr. BANNERMAN. That is correct.

I would not want to mislead you on that. A very high percentage of that, I would say as much as 60 to 70 percent of that, is not price competition but is design competition.

Representative CURTIS. By design competition, what do you mean, that the contractors say we will make you a missile of this kind or that kind?

Mr. BANNERMAN. I mean that the program for the missile, if that is what we are talking about, started out as a competition among various potential suppliers to demonstrate to the Government which could do the best job of coming up with a missile in the shortest possible time.

Representative CURTIS. Please prepare for the record and transmit it at your convenience three illustrations of design competition.

Mr. BANNERMAN. Yes, sir; I shall be glad to.

(The material referred to follows:)

EXAMPLES OF DESIGN COMPETITION (AIR FORCE), FEBRUARY 24, 1960

The Air Force has published regulations governing system source selection procedures (regulations 80-3). The regulations provide that when source selection of a weapon system is required, the commanders, Air Research and Development Command, Air Materiel Command, and the using command each designate an evaluation group to serve as an integral part of a system source selection board (SSSB). The chairman of the SSSB, who does not have a vote in the proceedings, is assigned by the Air Research and Development Command (ARDC).

The evaluation groups appointed by the three Air Force commands meet at the call of the chairman. The SSSB establishes the factors to be evaluated in determining the sources and prepares schedules, agendas, and procedures for the evaluation process. At the appropriate time the SSSB hears contractors' briefings, visits plants, and otherwise acquires all information necessary for a complete evaluation of proposals.

Upon completion of briefings and after sufficient deliberation to consider all aspects of each proposal, the SSSB completes its evaluation and presents its finding and recommendations to the commanders of ARDC, AMC, and the using command. Each commander concerned then makes his individual decision as to

the source or sources to be recommended and transmits his recommendations over his personal signature to Headquarters, USAF, marked "To Be Opened Only by the Vice Chief of Staff." A special code system is used to identify offerors and to minimize the possibility of information concerning the recommendations being inadvertently released to unauthorized persons.

The winner of competition is determined by the Chief of Staff, USAF, and the Secretary of the Air Force as appropriate, and is based upon review of the evaluations and recommendations of the three commanders, AMC, ARDC, and the using command. Before public announcement of the winner is made, the chairman of the SSSB notifies concerned commanders and contractors of this matter.

Two examples of a weapon system design competition and source selection are as follows:

(a) *WS-110 (B-70)*

An operational requirement for a high performance weapon system using chemical power was initiated after a feasibility study of such a system indicated its attainability.

Management proposals to carry out the phase I portions of the program, which is the basic design work and construction of mockups, were solicited from Boeing Airplane Co., Douglas Aircraft Co., Inc., Convair Division, General Dynamics Corp., the Martin Co., Lockheed Aircraft Corp., and North American Aviation, Inc. These firms were solicited after consideration and evaluation of overall industry capabilities and a determination that the six firms had the management, engineering, and production capability, and experience required.

A SSSB was convened for the purpose of evaluating the proposals submitted. The board considered, in addition to the design proposal of each of the sources, factors concerning the contractors engineering capabilities, management capabilities, subcontracting plans, program scheduling, production capabilities, and anticipated program costs. After complete evaluation the board developed its findings and recommendations and presented them to the commanders concerned. The commanders in turn forwarded their individual recommendations to Headquarters, USAF, where, based on the facts and recommendations, North American Aviation, Inc., was determined to be the winner of the competition.

(b) *WS-133 (Minuteman)*

In the case of Minuteman the determination of contractors is being accomplished by competition within the major component categories of the system. These are: assembly and tests; propulsion; guidance and control; and reentry vehicle. All source determinations have not been completed at this time; however, the assembly and test category competition has been completed and Boeing Airplane Co. was the winner.

An operational requirement for this missile was initiated after feasibility studies indicated its attainability.

Proposals for the assembly and test of complete missiles, including all research and development tests and ground environment requirements, were solicited from the following companies:

- Aeronutronics—division of the Ford Motor Co., Glendale, Calif.
- General Motors—Allison Division, Indianapolis, Ind.
- Bell Aircraft Co.—Niagara Falls, N.Y.
- Bendix Aviation—South Bend, Ind.
- Boeing Airplane Co.—Seattle, Wash.
- Chance Vought—Dallas, Tex.
- Chrysler Corp.—Detroit, Mich.
- Convair Astronautics—San Diego, Calif.
- Curtiss-Wright Corp.—Wright Aero Division, Wood-Ridge, N.J.
- Douglas Aircraft Co.—Santa Monica, Calif.
- General Electric Corp.—Schenectady, N.Y.
- Lockheed Aircraft Corp.—Missile Systems Division, Van Nuys, Calif.
- Martin Co.—Baltimore, Md.
- McDonnell Aircraft Corp.—St. Louis, Mo.
- North American Aviation—Los Angeles, Calif.
- Northrop Corp.—Hawthorne, Calif.
- Republic Aviation Corp.—Farmingdale, N.Y.

These firms were solicited after consideration and evaluation of overall industry capabilities and a determination that these 17 firms had the management, engineering and production capability, and experience required.

An SSSB was convened for the purpose of evaluating the proposals submitted of which there were 12, 5 firms having declined to compete. The board considered the proposals in the light of such factors as technical approach, engineering capabilities, management capabilities, subcontracting plans, program scheduling, production capabilities, and anticipated program costs. Accepted procedures were followed and Boeing Airplane Co. was determined to be the winner of the competition.

Similar procedures will be followed to determine the sources from which we will procure the propulsion, guidance and control, and reentry vehicle for the Minuteman.

It is pointed out that the two weapon systems mentioned above differ in management concept. Except for the engines, the B-70 contractor manages the complete weapon system, integrates the subsystems, and selects the subcontractors with Air Force approval. The Minuteman system is made up of major components which are integrated into a weapon system by the Air Force i.e. (BMD/BMC). Therefore, each major component contractor is considered an associate contractor and selected separately in accordance with the above procedures.

For the B-70, a proposed source was recommended by General Rawlings, Lieutenant General Anderson, and General Power, commanders, respectively, of AMC, ARDC, and SAC. General White, Chief of Staff, approved the recommendation and forwarded it to Secretary Douglas for final approval.

For Minuteman assembly and test, the initial recommendation for source was made jointly by Major General Funk and Major General Schriever, commanders, respectively, of AMC's Ballistic Missile Center, and ARDC's Ballistic Missile Division, General Rawlings, Lieutenant General Anderson, and General Power, commanders, respectively, of AMC, ARDC, and SAC, concurred in the selection and forwarded their recommendations to General White, Chief of Staff, who approved the recommended selection, which was then approved by Mr. Douglas, Secretary of the Air Force.

EXAMPLE OF DESIGN COMPETITION IN PROCUREMENT (ARMY), FEBRUARY 24, 1960

Name of program.—Design and development of armored reconnaissance, airborne assault vehicle (ARAAV).

Initially a bidders conference was arranged by notification to industry through the Ordnance district system. The purpose of the bidders conference was to acquaint all qualified industrial concerns who were interested in bidding on the program, as to the requirements of the program, and the manner in which their proposals or bids should be submitted. Representatives of 53 different facilities attended this bidders conference. Of this number 45 evidenced a continued interest and were formally requested by Ordnance to submit proposals.

Negative responses were received from 83 facilities. Proposals were received from the following 12 facilities: Aircraft Armaments, Inc.; Borg-Warner Corp.; Chrysler Corp.; Cadillac Motor Division, GMC; Food Machinery & Chemical Corp.; Ford Motor Co.; Harvey Aluminum, Inc.; Jered Industries, Inc.; Pacific Car & Foundry Co.; Ranier Co.; Walter Motor Truck Co.; and Wilson, Nuttall, Raymond, Inc.

These 12 proposals were evaluated by a committee established by the commanding general, Ordnance Tank Automotive Command, Detroit, Mich. This committee was composed of competent technical personnel from Ordnance Tank Automotive Command and other Ordnance agencies including Watervliet Arsenal, Frankford Arsenal, and Ballistics Research Laboratory and Human Engineering Laboratory. Nineteen individuals were included in this committee.

Factors considered by this committee in the evaluation of the different proposals were:

- (a) Technical Responsiveness to military characteristics (R)
- (b) Producibility of design.
- (c) Estimated vehicle cost.
- (d) Experience and production capability.
- (e) Development time schedule.
- (f) Manufacturing rights.

Based on this evaluation, it was concluded by the committee that two proposals were superior to the others and worthy of further design investigation prior to final contractor selection.

The commanding general, Ordnance Tank Automotive Command, based on the committee evaluation and advice of his chief engineer and technical advisers recommended that a limited cost contract be made with each of the two companies to cover preliminary design and vehicle mockup of the two competitive design approaches, in order to assure the best design possible.

These contracts are now being negotiated. Upon completion of mockups, a further review will be made by interested Army agencies to determine which of the two design approaches is the most acceptable for meeting the requirements of the development program. At that time the contractor with the best overall design will be selected to continue the development program and the other will be dropped.

The recommendations of the commanding general, Ordnance Tank Automotive Command and the planned approach outlined above were approved by the following additional Army echelons:

Lt. Gen. J. H. Hinrichs, Chief of Ordnance, Department of the Army.

Lt. Gen. A. G. Trudeau, Chief of Research and Development, Department of the Army.

The Honorable George H. Roderick, Assistant Secretary of the Army for Financial Management, approved the negotiation of the contracts mentioned above.

The CHAIRMAN. Senator Javits.

Senator JAVITS. I know of no subject which is more hotly controverted than the one just touched on. I think this is the one subject that this subcommittee has to go into in this department. Therefore, I would like to ask you this question.

The percentages which you have given are very useful and certainly they will be very helpful. But I think the criteria and machinery by which you make your determination is equally important to us.

Now, as I understand it, you have really two kinds of competition at least, perhaps you have three. One is where you have an ascertained item that you negotiate for either on price or design, but you ascertain the item and you ask for people to negotiate with you, but you have them compete one with the other. The other is where you get the so-called weapon system and where all you do is pick a group of concerns. And of all the things that raise the hackles on people's backs, it is that, because there are all kinds of worry about what is the criteria, who is making the decisions and why and to what extent are they based on military implications, to what extent are they based on national economic situations or strategic requirements or what.

I think, Mr. Chairman, that this is one subject in which we ought to have, so that we have something upon which to ask questions, a very complete analysis from the Department of Defense as to just how this is done.

First, I thoroughly agree with Senator O'Mahoney. Let us have the breakdown, but then let us have how each of these is done and who

makes the judgment and whose judgment is final and how does it finally get up to that person who makes the final judgment, or set of persons. I think you can render a great service to the country if it were crystal clear this was a process which, as far as man can make it, endeavors to be fair because this is where all the complaint comes from.

Mr. McGUIRE. Senator, as you know, in the passing of the renegotiation law last year, there was a clause which required a study of our overall procurement program, how it was handled and so forth. This study was to be conducted by both the Senate and the House Armed Services Committees.

Now, Senator Thurmond is heading a committee, and I think I am correct that some time in the next 2 or 3 weeks this committee is to start its hearings.

In anticipation of this—and it is a very involved subject as you have so ably pointed out, and somewhat misunderstood—we have prepared I think a most comprehensive presentation. I see no reason why we should not make this available to your committee. I think it will answer your question. I am sure that Senator Thurmond would have no objection to it.

If it does not answer your question, obviously we are prepared to give you anything that you want in this field. There is no secret I know of.

Mr. BANNERMAN. We will certainly make clear to you precisely how major weapons system contractor selection is done. I can assure you it is designed to be as fair but as effective as we can possibly make it.

Senator JAVITS. I am sure that is your opinion and we respect it, but of course we would be entitled to a judgment on it ourselves.

Mr. Chairman, I think this is a question for the Chair. If the Chair will agree, I think it would be great if we could get this analysis because I think this is one of the biggest questions that trouble the people in the country.

Mr. McGUIRE. We expect to have it complete in about 10 days.

The CHAIRMAN. Would you be willing to send us a copy?

Mr. McGUIRE. Yes. I would ask the privilege of having you tell Senator Thurmond that we are doing it, it having been prepared for his committee.

The CHAIRMAN. We will make a formal request that a copy be furnished this committee.

(The material referred to follows:)

DEPARTMENT OF DEFENSE

Procurement Presentation

TO THE

PROCUREMENT SUBCOMMITTEE

OF THE

Committee on Armed Services

UNITED STATES SENATE



IN CONNECTION WITH THE

**Committee's Study of Procurement Policies
and Practices**

**AS PROVIDED FOR IN PUBLIC LAW 86-89
(86th Congress, H.R. 7086, July 13, 1959)**

FEBRUARY 8 and 9, 1960

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STATEMENT BY THE HONORABLE PERKINS MCGUIRE, ASSISTANT SECRETARY OF DEFENSE (SUPPLY LOGISTICS)

Before the Procurement Subcommittee of the Senate Committee on Armed Forces

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before this committee in response to your invitation to discuss the procurement policies and practices of the Department of Defense.

When the committee hearings on Senate bills 800, 1883, and 1878 concluded last summer, I devoted considerable thought to how the Department could best be of constructive assistance in your procurement study called for by Public Law 85-89, which extended the Renegotiation Act.

It appeared to me, and to my staff, that your purpose in this study would hardly be served if we directed our attention only to specific areas of general interest. After discussing the scope of our presentation with the staff of the committee, we felt that we could be more helpful if we undertook to present a comprehensive picture of defense procurement. Accordingly, in consultation with the military departments, I determined that such an extensive presentation on defense procurement should be prepared.

We have done so. It is long—necessarily so. We think it is worth while and that it will be helpful to you in the study in which you are now engaged.

For convenience and ease of understanding, we have broken this subject into eight separate topics. They are—

1. Introduction to Defense Procurement.
2. Historical Development of Procurement Methods.
3. Advantages and Limitations of Formal Advertising.
4. Specifications.
5. Types of Contracts.
6. Research and Development.
7. Weapon Systems, and
8. Pricing of Defense Contracts.

The purpose of the first presentation, "Introduction to Defense Procurement," is to provide some general background information which should be of assistance in considering the presentations which follow. It covers, for example, what we buy, how we buy, how we are organized to buy, and how we control it.

The second subject discusses the 17 specific situations in which Congress has authorized the use of the negotiation method of procurement. It goes into the legislative history of these authorities. I think it will prove of interest to see how far back some of these grants of authority go. There is a mistaken belief in some quarters that most, if not all, of the so-called 17 exceptions originated

with the Armed Services Procurement Act of 1947.

The remainder of the subjects to be discussed are generally self-explanatory.

The paper on "Formal Advertising" explains when this method of procurement is effective and when it is not.

The "Specifications" presentation discusses our use of specifications and their part in stimulating maximum competition.

I cannot emphasize too strongly the importance of the discussion on "Types of Contracts." As you know, the availability of various types of contracts is essential to realistic pricing of our purchases.

"Research and Development" and "Weapon Systems" could have been joined together. We chose to separate them, however, in order to give proper balance to the important features of each.

"Pricing" is the final subject for discussion. Those of us with management responsibilities in the Department believe a good buying job is being done. We know it can be improved. The discussion of pricing will show you what our pricing problems are, how we come at them, and what we are doing continuously to improve our operations.

Mr. Chairman, and members of the committee, before I conclude, I must say that I do appreciate your making both yourselves and the time available for us to present this material to you. I think we will all find that it will be time well spent.

In order that you may have an analysis of our procurement program and policies in detail, I have with me today my three top procurement people, Mr. Bannerman, my Director for Procurement Policy; Mr. Phelan, the Assistant Director; and Commander Malloy, the Chairman of the Armed Services Procurement Regulation Committee, who will be available to answer any questions that you may have as this presentation is made.

AN INTRODUCTION TO DEFENSE PROCUREMENT

Any consideration of defense procurement must necessarily be based on an understanding of its magnitude and complexity. The Department of Defense annual procurement program is about \$35 billion. We buy a tremendous variety of supplies, equipment, and services. These include house-keeping items, maintenance supplies, production facilities, research and development, and

military weapons. This vast range of purchased items—running, as it does, from simple, commonplace items to highly complex items never previously manufactured—presents a huge undertaking.

Because our program is so vast and complex, it is not easy to appreciate in its totality. Therefore, in this initial presentation, we shall try to give you a "feel" for it. We will point out—

I. What we buy.

II. How we buy.

III. How we are organized to buy, and

IV. How we control it.

In this way and with the clarification which appropriate statistics may shed, we hope to bring into some perspective the tremendous undertaking which defense procurement is.

I. WHAT WE BUY

Military procurement, as we use the term, refers to purchases of supplies and services, including construction. To simplify this, three general categories of items are purchased (other appropriate breakdowns might be made, but this will serve our purpose at this time):

(a) Items which are identical with those required by other Government agencies, such as office furniture and supplies, household furniture, and commercial tires and tubes. These items are acquired through GSA.

(b) Commercial type items and items of conventional military equipment which can be supplied by many concerns. This category includes such items as clothing, petroleum products, hardware, lumber, paint, small boats, etc. These items are normally purchased by formal advertising; negotiation, however, is used for small purchases and in carrying out our small business and labor surplus and disaster area programs. The fact that a procurement is negotiated does not mean an absence of competition—as we will discuss later.

(c) The third category—and by far the largest area dollarwise—comprises research, development, and production of complex military weapons and equipment. These include missiles, aircraft, ships, tanks, radar, and other complicated items which generally have no counterpart in the commercial market. The majority of these items are produced by competitive negotiation—which will be referred to later.

How much of these items do we buy? In fiscal year 1959, our defense procurement program involved the purchase of

a very large number of the 35 million different items which we carry in our catalog, required about 67 million separate actions and totaled \$25 billion. This represented over 60 percent of the defense budget of \$40 billion. It comprised over 30 percent of the national budget of \$80 billion. By way of additional comparison, three large U.S. corporations (General Motors, General Electric, and United States Steel), with combined annual sales of \$17 billion for the calendar year ending December 31, 1959, purchased during that period materials and services for about \$5 billion, or only about one-third as much.

Rather than talking in billions or millions, maybe we can reduce this to an area we are all familiar with. For fiscal year 1959, the Army ran some figures on average monthly subsistence purchases, which will illustrate the point. For example, here are some of these average monthly figures:

	(Millions)	
	Pounds	Dollars
Fresh beef	10.0	1.3
Fresh pork products	4.4	1.2
Facility, wash	1.1	2.6
Eggs, fresh	11.3	2.0
Porkloins	22.2	1.0
Four (chick)	14.1	1.9

1 Dozen.

Since these are items we use daily in our homes, these quantities may seem astronomical. Actually, however, the amount of money expended on subsistence is relatively small compared with our aircraft and missile programs. In fiscal year 1959, for example, while \$491 million went for subsistence, \$6,467 million and \$4,490 million respectively were required to support the aircraft and missile efforts.

Exhibit 1 is a breakdown of this \$25 billion by major programs. It will be noted that 3 of the 16 programs, aircraft, missiles and electronics, alone accounted for over 63 percent of our dollars.

II. How We Buy

During fiscal year 1959, defense procurement required about 67 million separate actions. Of these, 58 million were contracts placed by formal advertising, small purchase procedures and negotiation. The balance of about 900,000 actions was intragovernmental orders or modifications made pursuant to the terms of existing contracts.

Exhibit 2 shows that the vast bulk of our procurement actions were small purchases, namely, 4 8 million, or 92.9 percent. Of the balance of 8.7 percent in the United States, 4.9 percent of the actions were formally advertised and 3.8 percent were negotiated. The remaining 3.4 percent, which makes up the 100 percent, were overseas procurements.

From time to time we hear it said that 98 percent of all defense procurement is accomplished without competition. Such statements are incorrect and reflect a misunderstanding of certain basic facts.

First, these statements are based on statistics which show the numbers of

procurement actions rather than upon those which show the dollar values involved. While it is true, as just pointed out, that formally advertised actions account for 4.9 percent of the total number of actions, this method of procurement, including small business restricted advertising, accounted for 3.4 billion, or 21 percent of all defense dollars obligated.

Second, these statements overlook the fact that 82.9 percent of all actions are the small purchases we referred to earlier. Because the administrative costs of formal advertising procedures often outweigh the value of small dollar purchases, Congress specifically authorized the negotiation of such purchases. Moreover, it does not follow just because these small purchases are negotiated that competition is not obtained. The Armed Services Procurement Regulation

ASPR 101 requires that reasonable solicitation of quotations from qualified sources be secured for all purchases over \$100. And for procurements under \$100, we require such purchases to be distributed equitably over a period of time among qualified suppliers.

Third, such statements are based on the assumption that only formally advertised procurements involve competition. This assumption is untrue. Referring to exhibit 2 again, it should be noted that 47,780 separate actions involving \$2.3 billion were negotiated competitively. This was price competition. In fact, these charts and statistics show only the presence or absence of price competition. They fail to reflect in any way the other kinds of competition which the military departments employ when competition based solely on price is unavailable. This explains, perhaps, why the 0.6 percent of the actions and \$8 billion listed as "negotiated with one source," in exhibit 2, have been interpreted as being effected without any competition whatsoever.

Fourth, these statements do not take into consideration the fact, just mentioned, that our statistics in exhibit 2 cover only price competition, and, further, that there are other kinds of competition generated and obtained in our negotiated procurements. Last summer when this committee requested information showing the extent of competition obtained in negotiated procurements, quite frankly, we had no statistical information available within the Department to respond to the precise question asked. At that time, we considered that some break-out of the dollars listed as "negotiated with one source" could be accomplished to show the degree of competition obtained prior to negotiations with that source. Accordingly, each of the military departments undertook to check, contract by contract, the larger dollar volume procurements classified as "negotiated with one source" to determine—

(a) whether they had been placed as a result of the submission of competing designs or technical proposals for the conduct of research, development, test, or other such service, or

(b) whether they were contracts which flowed or followed on from procurements which were placed under the types of competition in (a) above, or under price competition.

The information so developed was submitted for the record and may be found at page 106 of the military procurement hearings. However, since this information covered only the first 9 months of fiscal year 1959, the military departments recently undertook the very same effort for the entire fiscal year. This last review and study shows that—

1. The Army reviewed contracts amounting to \$1,050,022,000 out of the total of \$2,128,900,000 listed as negotiated with one source. It found that contracts of \$1,372,778,838 were procured after competition of one or the other types of competition mentioned above. In other words, 84.2 percent of the dollars reviewed relate back to competitive situations.

2. The Navy physically reviewed \$2,029 million out of its total of \$3,017,466,000 listed as negotiated with one source. It found that 75 percent of the dollars checked was placed as the result of such basic competitive situations.

3. The Air Force surveyed \$2,978 million out of the \$3,091,466,000 similarly listed and found that \$2,600,825,469, or 87.4 percent of the dollars examined, related to aircraft and missiles which were procured after the conduct of a design competition.

The balance of the dollars reviewed in each case was obligated by negotiation with one source. As we all know, competition is sometimes precluded because of the existence of patent rights, secret processes, control of basic raw material, and when only one source exists for a particular supply or service. Moreover, in the interest of national defense or industrial mobilization, Congress has specifically authorized negotiation with one source to have, for example, a plant or producer available for furnishing property or services in case of a national emergency.

Thus, the preponderance of the money obligated by contracts listed as "negotiated with one source" actually resulted from competitive situations. Additionally, as exhibit 2 shows, the military departments placed \$3,447 million by formal advertising; \$2,371 million by competitive price negotiation; and \$799 million in actions of \$2,500 or less, using small purchase procedures, which require, as we noted, that a reasonable number of quotations must be obtained on such purchases of \$100 or more.

Since the extent of all types of competition obtained, not just price competition, is essential to any consideration of the degree of competition obtained in defense procurement, we are taking steps to revise our reporting procedures so that this precise information will be readily available in the future. The Armed Services Procurement Regulation Committee, which will be referred to

later, is currently developing the mechanics to accomplish this.

It is realized that we have spent considerable time and gone into quite some detail on these fundamental statistics. Our motivation, however, has been strictly one of being helpful and of clarifying information, which, when unexplained, has not been sufficiently clear in the past.

III. HOW WE ARE ORGANIZED TO BUY

This part of the presentation comes from a request by a representative of the Committee that we explain our procurement organization—in other words, who does the actual buying. At the outset, it should be made clear that the Office of the Secretary of Defense does no purchasing. All procurement is effected by the three military departments. To explain the defense procurement organization, it will be helpful if we approach it from the organizational structure and functional responsibilities first, and then separately discuss the coordinated procurement and related programs under which specific defensewide procurement responsibilities are assigned to one military department.

The procurement organization

The procurement organization of the Department of Defense is outlined on exhibit 3. Under the Secretary of Defense, the Assistant Secretary of Defense (Supply and Logistics) establishes procurement policies and procedures for the entire Department. To render assistance in this connection, the Armed Services Procurement Regulation Committee develops uniform procurement policies and procedures for issuance by the Assistant Secretary of Defense. This Committee is composed of representatives of the three military departments and the Office of the Assistant Secretary of Defense.

Within each military department, an Assistant Secretary is in charge of military procurement, namely, the Assistant Secretary of the Army (Logistics), the Assistant Secretary of the Navy (Material) and the Assistant Secretary of the Air Force (Material). At the next lower echelon a military official in each Department is responsible for coordinating and directing the overall procurement operation.

Army

The Assistant Secretary of the Army (Logistics) has delegated to the Deputy Chief of Staff for Logistics the authority for carrying out his procurement functions throughout the Army Establishment. The Deputy Chief of Staff directs and controls the procurement functions of the technical services, which include the Chemical Corps, Corps of Engineers, Ordnance Corps, Signal Corps, Quartermaster Corps, Transportation Corps, and Army Medical Service. The procurement responsibilities of the individual technical services are as follows:

Chemical Corps—procurement of services, material and equipment pertaining to chemical, biological and radiological warfare, and related research.

Corps of Engineers—procurement of

the engineering, construction, repair and real estate services and material for the Army and the Air Force, and related research.

Ordnance Corps—procurement of ordnance material, including guns, missiles, ammunition, motor vehicles, and related research.

Signal Corps—procurement of signal communications, electronics, pictorial and cryptologic services and material, and related research.

Transportation Corps—procurement of transportation services and material for the Army, and related research. In addition, the Military Traffic Management Agency, a single managership, operates under the Transportation Corps.

Quartermaster Corps—procurement of all types of quartermaster equipment, supplies and services, and related research. Additionally, two single manager commodity assignments made to the Army, the Military Subsistence Supply Agency and the Military Clothing and Textile Supply Agency, operate under the Quartermaster Corps.

Army Medical Service—contracts for dependents' medical and hospitalization services, medical research, and miscellaneous supplies and services for support of Army hospitals.

In addition, the six continental armies in the United States and the Military District of Washington supervise the not inconsiderable volume of local procurement effected at the level of Army posts, camps, and stations.

The direction of the Army's research and development effort is vested in the Director of Research and Development and the military Chief of Research and Development. Under their direction and control the technical services are responsible for the research, development and test of material assigned to them.

Navy

In the Navy, under the Assistant Secretary of the Navy (Material), the Chief of Naval Material directs the efforts of the bureaus and offices of the Navy Department in procurement matters. These bureaus and offices, which are similar to the Army's technical services in that each generally has cognizance of a broad category of material, have respective procurement responsibilities as follows:

Bureau of Naval Weapons—procurement of all Navy and Marine Corps aircraft, rockets, guided missiles and naval ordnance, including major components and equipment and services related to their maintenance and repair and related research and development. This Bureau was established on December 1, 1959, through a merger of the former Bureaus of Aeronautics and Ordnance.

Bureau of Ships—procurement of naval vessels of all types, including hulls, components, machinery, and all major electronic equipment except specialized air and fire-control electronic equipment; for research and development on such items; and for materials and appliances connected with chemical and biological warfare defense. It also procures all vessels and water craft needed

by the Army and Air Force and makes ship repair contracts with private shipyards.

Bureau of Yards and Docks—procurement of services and materials related to public works, including construction and repairs at shore activities, public utilities, and transportation not otherwise assigned. The Bureau also serves as a construction agency for the Air Force.

Marine Corps—procurement of all equipment, supplies and services required by the Marine Corps, procurement responsibility for which has not been specifically assigned elsewhere.

Office of Naval Research—procurement of basic research of a general nature, procurement for the design and development of training devices and aids, and the procurement of special research projects which augment those being conducted by the various technical bureaus.

Bureau of Naval Personnel—procurement of services and materials incident to the recruiting, training, and welfare of naval personnel.

Bureau of Supplies and Accounts—manages the Navy's field purchasing organization, which procures all of the replacement spares and parts, and associated consumables for the major prime items of equipment purchased by the technical bureaus as described above. Additionally, it procures general-purpose and common-use items not assigned to one of the Defense Department's coordinated procurement offices, and performs the local purchasing at all of the Navy's field activities such as Navy purchasing offices, naval stations, naval air stations, naval supply depots, and naval shipyards. Also operating under the Bureau of Supplies and Accounts are two single manager agencies, the Military Medical Supply Agency and the Military Petroleum Supply Agency.

The Navy also has the single manager responsibility for worldwide military sea transportation of passengers and cargo. The Military Sea Transportation Service is the operating agency for this single managership, and, with respect to procurement, is responsible to the Assistant Secretary of the Navy (Material).

Single manager agencies have defensewide responsibilities and will be discussed later.

Air Force

In the Air Force, procurement authority has been delegated by the Assistant Secretary of the Air Force (Material) through the Chief of Staff and Deputy Chief of Staff, Material, to the Air Materiel Command (AMC). AMC is responsible for the Air Force's central buying program, which is its major buying function and accounts for all except the procurement of research and development and local base procurement. The actual purchasing is performed for AMC within the Zone of Interior by the Aeronautical Systems Center, the Ballistic Missile Center, the Electronic System Center, nine separate air materiel areas, and two depots. Oversea procurement for AMC is accomplished by two air materiel forces—one in Europe and one in the Pacific.

The procurement responsibilities of the centers, air materiel areas, and the depots are as follows:

The Aeronautical System Center procures all manned aircraft weapon systems and aerodynamic nonballistic missile systems including major items of equipment such as engines, airborne electronic gear, fire control systems, bomb and navigational systems, and support equipment for specific weapons.

The Ballistic Missiles Center procures ballistic missiles, their guidance systems, nose cones, powerplants, and specialized ground support equipment.

The Ballistic Missile Center procures integrated warning and control systems for air defense and the automatic electronic data processing equipment which uses the intelligence provided from the warning radar.

Each of the air materiel areas procures or arranges the support of the specific aircraft, guided missiles, ballistic missiles, and control and warning systems for which it has been assigned as the logistic support manager. This support includes procurement of replacement parts, operational support, and necessary maintenance, repair, or modification. In addition, the Rome Air Materiel Area also procures the electronic systems for communication and control of flying operations.

The depots procure general support equipment such as refuelers, crash-fire trucks, snow-removal vehicles, and radio and radar tubes.

Procurement of research and development in the Air Force is primarily the responsibility of the Air Research and Development Command (ARDC). ARDC procures basic and applied research, as well as some equipment prototypes. It has nine purchasing offices which are responsible for the procurement of many types of research; they also procure limited development associated with specific "hardware" projects. It also has a tenth purchasing office which is the Air Force Office of Scientific Research.

The Air Force also has the single manager responsibility for worldwide military air transportation, both cargo and passenger. The Military Air Transport Service (MATS) is the operating agency for this single manager and, organizationally, is assigned directly to the Chief of Staff of the Air Force.

Base procurement in the Air Force is accomplished at individual Air Force bases, of all Air Force commands, throughout the world.

This, then, is the basic procurement organization of the Department of Defense. At the same time, there exists another type of procurement system which is called the

Coordinated procurement program

Although the concept of coordinated procurement was applied to a few areas in World War II, this concept, as a full-fledged program, has developed within the past 10 years. Its objectives are—

- (a) the elimination of duplication and overlapping of procurement operations between and among the military departments, and

- (b) the improvement of the effectiveness and economy of supply and service operations throughout the departments.

These objectives are achieved through centralization and consolidation of procurement functions common to two or more military departments in order to secure the benefits of large volume purchasing. This is made possible by combining requirements of the military departments. At the same time certain economies are achieved by eliminating duplicating procurement facilities and personnel.

The Department of Defense is constantly striving to have one military department procure, wherever it is practical, the requirements for common-use items of all three departments. Based upon recommendations of the military services, of the Armed Forces Supply Support Center or of the GSA (S. & L.), the Assistant Secretary of Defense for Supply and Logistics directs the establishment of assignments within the coordinated procurement program. The ASD (S. & L.) is also responsible for reviewing assignments to assure effective implementation. Recommendations, of course, are supported by detailed data concerning the important factors which are determinative of the department to whom the assignment should be made. For example, among the factors involved are the value of each department's procurement and inventory program considering both peacetime and mobilization requirements, each department's average contract cost for the items involved, their efficiency and effectiveness, adequacy of their procurement staffs and technical facilities, and experience in relation to the item involved.

The coordinated procurement program has two major subprograms (exhibit 4):

- (a) The single department procurement program; and
- (b) The plant cognisance procurement program.

Under this program, certain commodities used by two or more military departments have been assigned to a single department for procurement. The assigned department consolidates and purchases the combined requirements of all of the services, utilizing its regularly established purchasing system. There are presently 23 single department procurement assignments, which are listed in exhibit 5.

- (b) The plant cognisance procurement program

Under this program, responsibility for all procurement of aircraft engines, propellers, and airframes from certain commercial aviation plants has been assigned to either the Air Force or the Navy. For example, contracts covering propellers to be manufactured in the Windsor Locks, Connecticut plant of the Hamilton Standard Division of the United Aircraft Corp. are made by the

Navy whether the propellers are required by the Army, the Air Force, or the Navy. Although this program is presently confined to these items, expansion of the program to other supplies is actively under study. Procurement under this procedure permits proper service allocation of the sometimes limited production capacity available, avoids duplication of military inspection procedures and personnel in a particular plant, and provides a single point of contact and source of information within the plant for the contractor. A list of the assignments made under this coordinated procurement program is set forth in exhibit 6.

This, in brief, is the coordinated procurement program. It is a continuing program which is being specifically furthered by the Armed Forces Supply Support Center. The center, which was established on June 23, 1950, has some 26 study groups considering additional means and areas whereby this concept of integrated supply including procurement, may be further implemented. In sum, we feel this program is moving ahead very satisfactorily.

Another important program which is related to, but is more comprehensive than, coordinated procurement is our—

Single manager program

This program was established in DOD in 1946. Under this program, the basic supply functions for selected commercial type commodities and services used in common by the military departments were integrated. Management of each was assigned to the Secretary of one department as the single manager.

To carry out his responsibility, each single manager established an operating agency, generally jointly staffed by personnel from all services, for his assigned commodity or service. Some of these operating agencies had previously been functioning on a single department purchase basis. In addition to procurement, the supply functions incorporated in the single manager concept include computation of net requirements, wholesale inventory management, stock fund administration, warehousing, and distribution. To date, seven single managerships—four commodities and three services—are in operation. Moreover, two more commodity assignments have been made and are scheduled for early implementation. Exhibit 7 lists the seven existing and the two new assignments and indicates their respective operating agencies and single managers.

At this time, there is another centralized procurement program which should be mentioned. This is the governmentwide interdepartmental procurement program, operated by the General Services Administration (GSA). Under this program, GSA procures certain commonly used, commercial-type items for all Government agencies, including the Department of Defense. Examples are household and office furniture, typewriters, floor coverings, spark plugs, vacuum cleaners, etc. GSA employs three methods of supply, each of which is utilized substantially by the

military departments. These methods and the extent of use by the three services are as follows:

(a) Supply through storage and issue to using agencies, as needed. During fiscal year 1959, OMA issued supplies totaling \$181,400,000, 89 percent of which was issued to the military departments.

(b) Supply through purchase of specific requirements for delivery direct from the supplier to the using agency. During fiscal year 1959, supplies delivered to using agencies under this method amounted to \$154,800,000, 86 percent of which was for the military departments.

(c) Supply through indefinite quantity requirements contracts commonly referred to as Federal supply schedules. During fiscal year 1959, Federal agencies ordered supplies and services valued at \$911,700,000 under these supply schedules—85 percent of this dollar volume was purchases made by the military departments.

Exhibit A contains a list of Federal supply schedules, the use of which by the military departments is mandatory.

IV. How We Contract It

While Congress has enacted many laws which govern and apply to defense procurement, such as the Armed Services Procurement Act (now ch. 137 of title 10 of the United States Code), the Davis-Bacon Act, the Walsh-Healey Act, etc., it is not our intent to cover such "external controls" in this introductory presentation. At this time, we will discuss what may be called "internal controls"—those which the Department of Defense has prescribed in the procurement area.

DOD Procurement Regulation

The Armed Services Procurement Regulation (ASPR) is the basic procurement regulation within the Department of Defense. It prescribes uniform policies and procedures for the military departments. It provides direction and guidance for complying with pertinent statutes, Executive orders and regulations of other agencies. It covers policies, practices and procedures on many subjects, such as the appointment of contracting officers, formal advertising, negotiation, pricing, types of contracts, contract clauses, and contract cost principles.

As we noted earlier, the ASPR is issued by the Assistant Secretary of Defense (Supply and Logistics) after consultation with the Materiel Secretaries of the three services. It is normally developed by the ASPR Committee, which functions under the Assistant Secretary of Defense (Supply and Logistics) and is composed of two representatives from each of the military departments and a chairman and secretary supplied by the Assistant Secretary of Defense (S. & L.). Proposals for new or revised policies to improve military procurement are constantly under study by this Committee. Major policy matters are also jointly considered by the Assistant Secretary of

Defense (S. & L.) and the Materiel Secretaries of the military departments.

ASPR is a flexible regulation. While its purpose is to provide the necessary policy and procedure in all procurement areas, it is impossible to anticipate every possible situation which may arise. Instances arise where, for example, a particular required clause may be wholly inappropriate. For example, our tax clause required for use in fixed-price contracts may not be appropriate in a contract to be executed and performed in a foreign country. In such a case, a deviation from the ASPR requirement may be permitted.

Deviations from ASPR which affect only one contract or procurement may be authorized by a military department where justified by special circumstances involved. Deviations affecting more than one contract or procurement must receive the approval of the ASPR Committee, and, where major policy is involved, must be approved by the Assistant Secretary of Defense (S. & L.).

Supplemental procurement regulations are issued by the military departments. These are the Army procurement procedure (APP), the Navy procurement directive (NPD) and the Air Force procurement instruction (AFPI), which are arranged and numbered so as to correspond to ASPR. They provide detailed procedures, consistent with ASPR, which nevertheless necessarily vary among the services to take care of differences in their organizational structures. These departmental regulations also provide guidance in areas not covered by the ASPR. For the past year and one-half, however, it has been our policy to include in the ASPR any matter which is dealt with by more than one service regulation. As a result, these supplemental procurement regulations are steadily being reduced as the ASPR coverage increases.

Contracting officers

One of the principal controls on military procurement is that exercised over the appointment of contracting officers. The authority to execute and administer contracts is derived from the basic authority vested by statute in the Secretaries of the military departments. These Secretaries are expressly authorized to delegate procurement functions within their respective departments, and, by agreement among the Secretaries concerned, among departments. Contracting officers may be designated either by the Secretaries themselves or by subordinate officials to whom authority to designate contracting officers has been delegated. Only persons who have been determined to possess the required attributes, including training, experience, judgment and maturity, are designated as contracting officers. To assist in assuring that all procurement personnel, including contracting officers, are provided the best possible training in their specialties, the service sponsor at both military activities and civilian educational institutions a variety of training courses. These courses cover such areas as procurement laws, regulations and

procedures, price analysis, negotiation techniques, and contract administration.

Not only are the qualifications and selection of contracting officers zealously safeguarded, but, in addition, certain restrictions are often imposed on the procurements which may be made by contracting officers at various military activities. For example, procurements by smaller field activities are frequently limited to purchases which do not exceed certain dollar values, such as \$100 or \$2,500. You will recall our discussion of the fact that about 85 percent of all procurement actions are small purchases of \$2,500 or less. At the same time, it was noted that this tremendous amount of procurement actions accounted for only 4.7 percent of the dollars involved. The vast bulk of these small purchases are made at these field activities all over the world. Frankly, we cannot afford the cost which would be involved in staffing our contracting offices at these activities with the price analysts, auditors, lawyers, and technical personnel essential to proper handling of large dollar value procurements. The objective of the monetary limitations placed on such contracting officers, therefore, is to insure that the large dollar value procurements or those of an unusual nature are effected only by officers who are specially qualified and properly supported to accomplish the more complex procurements.

A contracting officer whose authority is not so limited is not expected, or permitted, to carry out his responsibility alone and unaided. The particular contracting officers we have in mind here are those who handle the procurement actions involving most of the defense dollars. No one man could possibly be sufficiently knowledgeable in so many related fields to perform this important function. And even assuming a person with such unique talents did exist, he would not have the time, with the workload involved, to perform all these functions. Thus, the contracting officer actually functions as the captain of a team of experts whose advice and counsel cover the entire procurement area. The team members include engineers, auditors, price analysts, lawyers, material inspectors, buyers, and negotiators—all specialists in their particular fields. With the advice and counsel of these specialists, a contracting officer is able to bring to bear on the problem involved the expert knowledge of the best qualified personnel available. For example, engineers and technicians insure that the item to be procured is properly identified in the specification; they also assist in the evaluation of the bids or proposals received to determine whether the items offered do, in fact, meet the requirements of the specifications. Moreover, as will be pointed out later in a presentation dealing with research and development, great reliance is placed on our technical personnel in determining the placement of research and development work. Auditors and price analysts are invaluable in determining the reasonableness of offered prices or estimated costs. Lawyers advise and assist with

respect to compliance with statutes and regulations and assure that contracts clearly express the intent of the parties.

Field personnel, in addition to functions of inspection, acceptance, and contract administration, also assist the contracting officer in determining the responsibility of prospective contractors; specifically, they conduct what we term a preaward survey--which means they investigate and report all the facts pertinent to an intelligent decision concerning the overall capability of the proposed supplier to perform the contract. It is usually the buyer or negotiator, either with or on behalf of the contracting officer, negotiates and obtains the prospective contractor's agreement to all of the contracting officer's proposed contract terms and conditions to effect a procurement which is fair and reasonable both to the Government and to the contractor.

Qualified and eligible sources

Another type of control pertains to the persons and firms with whom the contracting officer may do business. While it is basic defense policy to have as many sources of supply as practicable for its requirements, not everybody is eligible to receive Government contracts. Further, some persons and firms, though eligible, are not qualified for performance of particular contractual undertakings.

It is not our purpose to treat this subject exhaustively. It is important, however, to point out that necessary safeguards to insure acceptable and timely performance of defense contracts must be, and have been, prescribed. It should also be made clear that while we have been discussing "internal controls," some of the limitations on sources of supply have their origin in congressional enactments and in actions and responsibilities of Government agencies other than DOD. The policy and guidance for our contracting officers in these areas, however, are set forth in detail in ASPR.

To illustrate this, a contracting officer, before awarding a contract, has certain primary questions to resolve. Examples are:

1. Is this particular firm a manufacturer or regular dealer? In transactions in excess of \$10,000, the Walsh-Healey Public Contracts Act (41 U.S.C. 38) prohibits contracting with anybody not a manufacturer or regular dealer as defined by the Department of Labor. It should be added that our policy is to apply the same standards in transactions of \$10,000 or less. Small business pools, as part of our small business program, have been exempted from this manufacturer or regular dealer requirement. In addition, construction contractors are not governed by the same criteria as manufacturers or regular dealers.

2. Is this particular firm eligible to receive any Government contracts? In other words, is it included in the

"Consolidated list of debarred, ineligible, and suspended contractors?" If it is, the contracting officer may not contract with the firm. This list contains, for example, the names of firms and individuals found by the Department of Labor to have violated the Walsh-Healey Act, mentioned earlier, or found by the Comptroller General to have violated the provisions of the Davis-Bacon Act (40 U.S.C. 276 a-2(a)).

3. Is this particular firm a responsible prospective supplier? In other words, having found that the firm is eligible and qualified, a major question remains for consideration: Has this proposed supplier the requisite financial, production and technical capacity and capabilities to satisfactorily perform the particular contract involved? The firm may not have the production capacity available to produce 100 percent of the item quantities needed within the required delivery schedule. And where some development is required, ancillary to the production, it may lack the engineering staff necessary to perform it. These and many other questions the contracting officer must consider. The preaward survey, mentioned earlier, is the vehicle employed to gather all the latest information necessary to determine the firm's responsibility and capability.

These few illustrations suffice to make it clear that we do not contract with everybody who figuratively knocks on the contracting officer's door. We cannot afford to do so. To protect workers, employers, other contractors, and the Government itself, many Federal agencies, in addition to DOD, have participated in developing these necessary controls on procurement sources.

Types of contracts

One of the most significant controls in the entire field of procurement is that dealing with the types of contracts appropriate for use in different pricing situations. ASPR contains a lengthy section for the guidance of contracting officers in this area. Congress itself has legislated against the use of the cost-plus-a-percentage-of-cost contract and has required certain conditions precedent to the making of other types of contracts. In short, this subject of types of contracts is so important that one of the following presentations will be devoted entirely to this subject.

Review of proposed contracts

A final type of internal control which should be mentioned is our system of reviews and approvals of proposed contracts. In each service, procedures have been established which provide that

specified proposed contracts, both advertised and negotiated, must be first approved by procurement officials or review boards composed of specially and technically qualified personnel prior to their execution by the contracting officer. Additionally, there are other reviews and approvals required at still higher levels of the pricing and business aspects of certain larger dollar size contracts. In our major programs, the placement of large, long lead-time contracts often requires the personal consideration of the military Secretary involved. In following presentations, further detail on the more important of these reviews and approvals will be discussed.

The purpose of the departments here is to insure, by means of careful and thorough analysis of the placement, pricing, procedural, and business aspects of proposed procurements, that they are effected under contracts which further the interests of the Government, and at the same time, are fair and reasonable both to the Government and to the contractor.

Since the subject of military requirements is not a matter within the ambit of the functions of procurement personnel, we have directed our attention to how we procure. But, before ending this discussion of controls, it should be understood that there are especially significant controls with respect to the determination of requirements, namely, what is to be procured. The military departments establish their requirements based upon guidance approved by the Secretary of Defense as to force objectives, development, and the time-scheduling to be followed in achieving these objectives.

Quantitative requirements for material and services, the subject matter of our procurement contracts, receive a careful review within the military department concerned to assure that the need is valid and in consonance with policy guidance, that facilities and funds are available, and that production is scheduled so as to provide material and support to the forces as needed. Consideration is also given, of course, to the technical progress being made on items or systems under development which ultimately may replace the items currently being procured.

Further, an overall review of material requirements is provided at the OBD level with respect to selected weapon systems and major end items to assure that departmental requirements are consistent with approved policy, that appropriate balance among the departmental programs is attained, and that these programs are designed to make optimum use of available resources and funds.

This concludes this introductory presentation. Our purpose has been to touch upon some of the more significant aspects of defense procurement and to provide a background for the more detailed presentations which follow.

EXHIBIT 1

Net value of military procurement actions,
by program—fiscal year 1959

[Amounts in thousands]

Program	Total amount	Percent
Aircraft	\$6,487,043	30.5
Guided-missile systems	4,480,340	21.1
Electronics and communications equipment	2,474,171	11.7
Ships	1,084,788	5.2
Tanks, automotive	350,096	1.6
Weapons	186,997	.9
Ammunition	336,436	1.7
Fuel and lubricants	981,382	4.6
Tenths, clothing, and equipage	177,634	.8
Military building supplies	14,225	.1
Subsistence	490,851	2.3
Transportation equipment	453	(*)
Production equipment	147,192	.7
Construction	1,408,782	6.7
Medical services	704,785	3.3
Services	1,878,477	8.8
Total with business firms for work in the United States, actions of \$10,000 or more¹	21,341,697	100.0
Actions of \$10,000 or more	21,341,697	
Actions of less than \$10,000	1,802,532	
Total with business firms for work in the United States	23,144,230	
With business firms for work in the United States	23,144,230	
For work outside the United States	1,480,661	
Educational and nonprofit institutions	399,438	
Intragovernmental	738,347	
Total net value of military procurement actions	24,624,891	

¹ Less than 0.05 percent.² Data by program not available for actions of less than \$10,000.

EXHIBIT 2

Number and net value of military procurement actions, by method of procurement—fiscal year 1959

Method of procurement	Number of actions	Percent	Net value (thousands)	Percent
Advertised	298,077	4.9	\$1,446,673	21.2
Negotiated competitively	6,730	.5	2,371,173	14.6
Negotiated small purchases of \$1,500 or less within the United States ¹	4,830,311	82.9	788,325	4.7
Negotiated for procurement and use outside the United States	491,022	8.4	927,955	5.7
Negotiated with 1 source	34,922	.6	\$1,217,530	31.7
Negotiated, competitive status unknown ²	137,235	2.4	498,308	3.1
Total	5,827,987	100.0	14,247,363	100.0
Intragovernmental	847,439		738,347	
Modifications pursuant to terms of existing contracts (negotiation authority not required or used)	23,600		8,306,455	
All other procurements	5,827,987		16,247,363	
Total	6,698,987		25,322,065	

¹ Small purchase procedures require that a reasonable number of quotations must be obtained on purchases which exceed \$100.² Most of this amount was, in fact, awarded by contracts which resulted from competitive designs or proposals.³ Data on competitive aspects of procurements between \$1,500 and \$10,000 not available.EXHIBIT 2A¹

Extent of competitive procurement

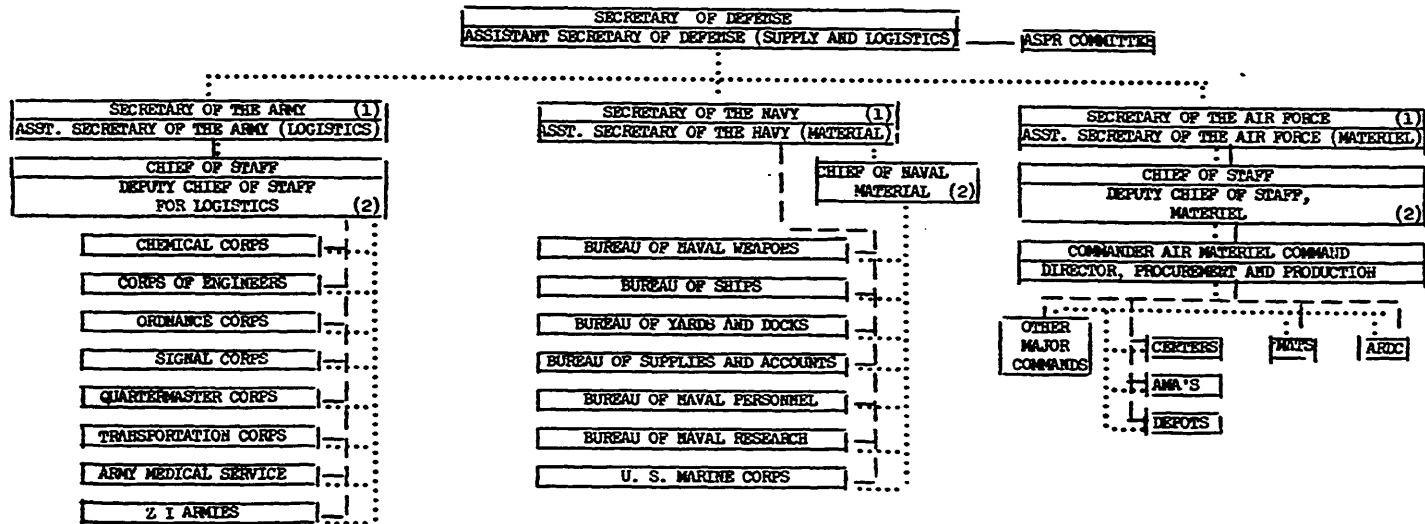
[Amounts in thousands]

	Amount	Percent
Purchases from contractors in the United States:		
Purchases made on the basis of price after competition among 2 or more prospective contractors:		
(a) Formally advertised	\$1,258,922	14.1
(b) Negotiated	3,462,953	12.0
Total	4,721,875	38.1
Estimated purchases or modifications of contracts made following technical or design competition (based on use of sampling described on p. 2 of statement, by spreading sample results over total applicable new procurement and contract modifications):		
	\$1,635,429	38.3
Total competitive procurement (price competition on actual basis) (design competition on estimated basis)	6,357,304	38.4
Total negotiated without competition	2,679,982	11.6
Total	9,037,286	100.0
All other:		
Intragovernmental procurement	738,347	
Negotiated for procurement and use outside United States	1,042,533	
Competitive status unknown	498,308	
Grand total	11,316,474	

¹ The percentage figures on exhibit 2A differ from those on exhibit 2 because, in exhibit 2A, the modifications pursuant to the terms of existing contracts were included in the totals. In exhibit 2 these modifications, which amounted to \$8,306,455,000, were not included in the percentage figures shown since they did not involve any new procurement.

EXHIBIT 3

PROCUREMENT ORGANIZATION OF THE DEPARTMENT OF DEFENSE
SHOWING FLOW OF PROCUREMENT AUTHORITY AND POLICY
GUIDANCE



..... Procurement Policy
 - - - - - Procurement Authority

- (1) Procurement authority is vested in the Military Secretaries by statute.
 (2) Departmental procurement instructions are applicable world-wide to all commands of the respective departments.

EXHIBIT 4

COORDINATED PROCUREMENT PROGRAMS - SINGLE DEPARTMENT PROCUREMENT

One military department, utilizing its regularly established purchasing system, purchases the requirements for certain commodities used for all military departments. The 23 assigned commodities include such items as paint, lumber, coal, photographic equipment and food preparation equipment.

B. PLANT COGNIZANCE PROCUREMENT

One military department effects all procurement from certain assigned aviation plants.

RELATED PROGRAMS

SINGLE MANAGER PROCUREMENT

Centralized procurement activities, assigned for management to the Secretary of a single military department, procure the combined net requirements for selected, commonly used commercial type commodities and services for all military departments. Commodities/services included: art; substance, petroleum and petroleum products, clothing and textile material, medical material, ocean transportation, air transportation, and traffic management services.

INTERDEPARTMENTAL PROCUREMENT

GSA procures commonly used, commercial type items, such as office equipment, for all Government agencies, including the military services.

EXHIBIT 5

Single department procurement assignments

Commodity	Assigned department
Antifreeze	Army.
Batteries, dry cell	Do.
Chemical warfare equipment and supplies	Do.
Construction and agricultural equipment and tractors	Do.
Drums and cans	Do.
Ecclesiastical equipment, furnishings, and supplies	Navy.
Electrical and electronic components	Air Force.
Electronic equipment	Army. Navy. Air Force.
Fibers, fiber rope, cordage, and twine	Navy.
Firefighting, rescue, and safety equipment (air-ports)	Air Force.
Firefighting, water purification, and sewage treatment equipment	Army.
Food preparation and serving equipment	Do.
Fuels, solid	Navy.
Hand tools	Do.
Lifts	Do.
Lifting fixtures, airport	Air Force.
Lumber, millwork, plywood, and veneer	Army.

EXHIBIT 5—Continued

Single department procurement assignments

Commodity	Assigned department
Materials handling equipment	Navy.
Mortuary equipment and supplies	Army.
Motor vehicles, trailers, and cycles	Do.
Paints and sealers	Navy.
Paper and paper products	Army.
Post control agents	Navy.
Photographic equipment	Air Force.
Prefabricated and portable buildings	Navy.
Railway equipment	Army.
Sextants, aircraft	Navy.
Ships, small craft, and related marine equipment	Do.
Telephone and telegraph equipment and components, military	Army.
Time measuring instruments	Army (part). Navy (part).
Tires and tubes	Army.
Weapons, fire control equipment, ammunition and explosives	Army (part). Navy (part).

¹ Each Department is assigned procurement responsibility for those items which the Department either designs or sponsored development.

EXHIBIT 6

Plant cognizance procurement assignments

Manufacturer	Location	Assigned department	Manufacturer	Location	Assigned department
Aircraft plants:			Aircraft plant—Continued		
Boeing Aircraft Corp.	Wichita, Kans.	Air Force.	United Aircraft Corp., Sikorski Aircraft Division	Bridgeport, Conn.	Air Force.
Bell Aircraft Corp., Bell Helicopter Corp., Bell Aircraft Corp., Air Force plant No. 18, 7721 Kenmore Ave.	Hurst, Tex. Toleware, N.Y.	Navy. Air Force.	Verol Aircraft Corp. (formerly Fairchild Helicopter Corp.)	Morton, Pa.	Navy.
Boeing Airplane Co.	Kenosha, Wash.	Do.	AVCO Manufacturing Corp., Lycoming Division	Williamsport, Pa.	Air Force.
Do.	Seattle, Wash.	Do.	AVCO Manufacturing Corp., Bridgeport Lycoming Division	Stratford, Conn.	Do.
Cessna Aircraft Co.	Wichita, Kans.	Do.	Continental Motors Corp., Continental Aviation & Engineering Corp., Research Division, 180 Algonquin Ave.	Detroit, Mich.	Do.
Chance Vought Aircraft, Inc., plant B, naval industrial reserve aircraft plant (DOD 82)	Dallas, Tex.	Navy.	Curtis-Wright Corp., Wright Aeronautical Division	Woodridge, N.J.	Do.
Douglas Aircraft Co., Inc., naval industrial reserve aircraft plant (DOD 86)	El Segundo, Calif.	Do.	Fairchild Engine & Airplane Corp., Fairchild Engine Division	Deer Park, N.Y.	Do.
Douglas Aircraft Co., Inc.	Santa Monica, Calif.	Air Force.	Ford Motor Co., Ford Aircraft Engine Plant, Air Force Plant No. 98 (DOD 71)	Chicago, Ill.	Do.
Douglas Aircraft Co., Inc., national industrial reserve plant No. 8	Tulsa, Okla.	Do.	General Electric Co., Aircraft Gas Turbine Division, production engine department	Evandale, Ohio	Do.
Douglas Aircraft Co., Inc.	Long Beach, Calif.	Do.	General Electric Co., Aircraft Gas Turbine Division, small aircraft engine department, Flancon 86	West Lynn, Mass.	Do.
Eco Corp.	College Point, N.Y.	Navy.	General Motors Corp., Allison Division, Flancon 88	Indianapolis, Ind.	Do.
Fairchild Engine & Airplane Corp., Fairchild Aircraft Division	Hagerstown, Md.	Air Force.	General Tire & Rubber Co., Aerojet General Corp., liquid rocket plant, Nimbus Station	Sacramento, Calif.	Do.
General Dynamics Corp., Convair Division, aircraft plant No. 4	San Diego, Calif.	Navy.	General Tire & Rubber Co., Aerojet General Corp.	Arvin, Calif.	Navy.
General Dynamics Corp., Convair Division, aircraft plant No. 2	Fort Worth, Tex.	Do.	Reaction Motors, Inc., naval industrial reserve aircraft plant (DOD 47)	Sacramento, Calif.	Do.
General Dynamics Corp., Convair Division, aircraft plant No. 1	Alcon, Ohio	Navy.	United Aircraft Corp., Pratt & Whitney Aircraft Division, departmental reserve plant (DOD 47)	Hamden, Conn.	Do.
Goodyear Tire & Rubber Co., Goodyear Aircraft Corp., Flancon 81	Do.	Do.	United Aircraft Corp., Pratt & Whitney Aircraft Division, naval industrial reserve aircraft plant (DOD 81)	North Haven, Conn.	Do.
Hughes Aircraft Corp.	El Paso, Tex.	Air Force.	United Aircraft Corp., Pratt & Whitney Aircraft Division, aviation Gas Turbine Division, naval industrial reserve aircraft plant (DOD 82)	Southampton, Conn.	Do.
Hughes Helicopter Co., Hughes Aircraft Division	Fullerton, Calif.	Air Force.	Propeller plants:	Kansas City, Mo.	Do.
Kaman Aircraft Corp., naval industrial reserve aircraft plant (DOD 44B)	Culver City, Calif.	Air Force.	Curtis-Wright Corp., Propeller Division	Caldwell, N.J.	Air Force.
Kaman Aircraft Corp.	Bloomfield, Conn.	Navy.	General Motors Corp., Allison Division, Art products operations	Vandalia, Ohio	Do.
Lockheed Aircraft Corp., plant A	Windsor Locks, Conn.	Do.	United Aircraft Corp., Hamilton Standard Division	Windsor Locks, Conn.	Navy.
Lockheed Aircraft Corp., plant B	Burbank, Calif.	Air Force.	Other plants:	Toledo, Ohio	Air Force.
Lockheed Aircraft Corp.	Meriden, Conn.	Do.	Air Force Plant No. 27 (DOD 118)		
Omega L. Martin Co., plant No. 2	Van Nuys, Calif.	Do.			
North American Aviation Corp.	Van Nuys, Calif.	Do.			
North American Aviation, Inc., naval industrial reserve aircraft plant (DOD 80)	Palmdale, Calif.	Do.			
Do.	Middle River, Md.	Navy.			
Northrop Aircraft	Los Angeles, Calif.	Do.			
Northrop Aircraft Radiophone Co.	Los Angeles, Calif.	Do.			
Palmdale Production and Twining Co.	Palmdale, Calif.	Do.			
Republic Aviation Corp.	Farmingdale, N.Y.	Do.			
Ryan Aeronautical Corp.	San Diego, Calif.	Navy.			
TAMCO Aircraft Corp., plant A	Dallas, Tex.	Do.			

EXHIBIT 7
Single managerships

Commodity/service	Operating agency	Single manager	Commodity/service	Operating agency	Single manager
Substances.....	Military Subsistence Supply Agency (MSA), 226 West Jackson Blvd., Chicago, Ill.	Secretary of the Army.	Traffic management.....	Military Traffic Management Agency (MTMA), Washington, D.C.	Secretary of the Army.
Clothing and textiles.....	Military Clothing and Textile Supply Agency (MCSA), 1251 20th Street S.W., Philadelphia, Pa.	Do.	Air transportation.....	Military Air Transport Service (MATB), Washington, D.C.	Secretary of the Air Force.
Medical, dental, veterinary and related equipment and supplies.....	Military Medical Supply Agency (MMSA), 41 Ave. and 36th St., Brooklyn, N.Y.	Secretary of the Navy	Hand tool and administrative and housekeeping supplies (general supplies) ¹	Military General Supply Agency, Richmond Quartermaster Depot, U.S. Army, Richmond, Va.	Secretary of the Army.
Petroleum and petroleum products.....	Military Petroleum Supply Agency (MPSA), Washington, D.C.	Do.	Hardware and abroad (industrial supplies) ¹	Military Industrial Supply Agency, 709 Hobbes Ave., Philadelphia, Pa.	Secretary of the Navy.
Ocean transportation.....	Military Sea Transportation Service (MSTS), Washington, D.C.	Do.			

¹ Planned for early implementation.

EXHIBIT 8

LIST OF FEDERAL SUPPLY SCHEDULE CONTRACTS WHICH ARE MANDATORY NATIONALLY UPON THE DEPARTMENT OF DEFENSE

Gasoline and lubricating oil—service station deliveries.

Tires and tubes (other than aircraft), part II (commercial tires and tubes only).

Brake lining, clutch facings, oil filter elements, and tire chains, etc., part IV. (Selected items only are mandatory upon DOD.)

Spark plugs, part II.

Electric lamps, part VI.

Household and quarters lamps, part VII.

Purchase, maintenance, repair, and rental of micro-photographic equipment, and supplies, part IV.

Household and quarters furniture, parts I through IV.

Office furniture, wood and steel, including steel insulating filing cabinets, part V.

Floor coverings, part I.

Books, part I, sections A and B. (Section A only is mandatory upon DOD.)

Periodicals and lawbooks, part II. (Lawbooks section only is mandatory upon DOD.)

Drafting-room and office supplies, part I.

Envelope, printed and plain, part V.

Typewriters (manual and electric); purchase, exchange allowances, and repair parts; maintenance and reconditioning of electric typewriters, part I.

Office equipment, part III, sections A and B.

Offset duplicating blankets and plates, direct image and photographic (metal and paper type), part IV.

Vacuum cleaners and repair parts, accessories and attachments, part II.

Aircraft tires (casings and tubes).

Recordings and transcription service, part I.

HISTORICAL DEVELOPMENT OF PROCUREMENT METHODS

In this second presentation, we will discuss the history and development of our two methods of procurement, formal advertising and negotiation. As is well known, our present law, chapter 137 of title 10, United States Code, which amended and codified the Armed Services Procurement Act of 1947, requires DOD contracts for property or services to be formally advertised, except under 17 specific situations where negotiation may be used. It may not be so well known, however, that for over 150 years the Congress, in times of peace and of war, has concerned itself with the problems of military procurement, including the use of formal advertising and nego-

tiation. Many laws have been enacted over this span of years. In fact, even a brief reference to these laws should impress one with the understanding and awareness of the Congress to the problems of military procurement and with the dispatch and foresight with which it has responded to them.

We wish to discuss first, in somewhat summary form, a general introduction to the historical development of our present law, and secondly, in the light of that background, the specific history and development of each of the 17 exceptions. We feel it will shed a light upon the why and wherefores of our present law, policies and procedures concerning these two methods of procurement.

INTRODUCTION

Military procurement began, of course, even before the founding of our Nation. The problem of equipping and supplying the forces of George Washington must have been as complex in those days as the problems of the missile and space age are today. Our Nation was still an infant when familiar questions arose—who should control military purchasing—how should it be accomplished.

In 1793, Congress provided¹ that War Department supplies would be purchased by the Treasury Department. Just 6 years later in 1798, however, the War Department and the newly created Navy Department² were authorized³ to procure all the supplies and services needed for the military and naval services.

In 1809, the first Federal statute⁴ requiring advertising for bids appeared. In pertinent part it read:

"... all purchases and contracts for supplies or services which are or may, according to law, be made by or under the direction of either the Secretary of the Treasury, the Secretary of War, or the Secretary of the Navy, shall be made either by open purchase, or by previously advertising for proposals respecting the same; . . ."

Although a literal reading of this early statute would indicate contracting officers had a choice between two equally available methods of procurement—"open purchases" or "advertising for proposals," the Attorney General interpreted⁵ it to require advertising except where public exigencies necessitated im-

All notes appear in appendix.

mediate contract performance. In the latter case, procurement of urgently required items could be made in the open market in the manner of ordinary commercial transactions.

Subsequent statutes developed specific ground rules for advertising. In 1842, a law⁶ dealing with stationery supplies and printing required—

(i) advertising for bids once a week for at least 4 weeks in a newspaper published where the work was to be performed;

(ii) description of the required supplies or services in the advertisement;

(iii) sealed bids opened under the direction of the procurement officer in the presence of at least two persons; and

(iv) award to the low bidder, provided he could furnish security for the Government in case of default.

In 1843, a statute⁷ added another requirement—the preparation of an abstract of bids. In 1852, contracts were required⁸ to be advertised at least 60 days before award and the presence of bidders at the bid opening was authorized. These requirements are quite similar to those now set forth in section 2305 of chapter 137.

In 1860, a landmark statute⁹ was passed.¹⁰ It was later incorporated in section 3709 of the Revised Statutes and, in pertinent part, provided:

"All purchases and contracts for supplies or services, in any of the Departments of the Government, except for personal services, shall be made by advertising a sufficient time previously for proposals respecting the same, when the public exigencies do not require the immediate delivery of the articles, or performance of the service. When immediate delivery or performance is required by the public exigency, the article or service required may be procured by open purchase or contract, at the places and in the manner in which such articles are usually bought and sold, or such services engaged, between individuals."

The particular significance of this statutory provision was the requirement of advertising with only two exceptions—contracts for personal services and con-

All notes appear in appendix.

tracts where public emergencies necessitated immediate performance. This statute, with certain exceptions which will be referred to later, continued to regulate the placement of military contracts until World War II.

Additionally, one further and important exception to section 3709 of the Revised Statutes must be mentioned. Not only the courts, but also the Attorney General and the Comptroller General consistently ruled "that advertising was not required under that statute in circumstances which made competition impracticable, such as the existence of only one source. From these early days on, then, in cases where only one source was available, neither the War nor Navy Departments utilized the procedures of formal advertising to effect such procurements.

Less than 2 weeks after Pearl Harbor, the Congress enacted title II of the First War Powers Act of 1941. This authorized the President to empower agencies connected with the war effort to enter into contracts without regard to existing provisions of law, wherever such action was deemed to facilitate prosecution of the war. On December 27, 1941, Executive Order 9001 implemented the act and authorized the War and Navy Departments to make contracts without compliance with statutory requirements for formal advertising. Again, on March 3, 1942, another positive step was taken. The Chairman of the War Production Board prohibited all contracting by the formal advertising method unless specially authorized. For the duration of the war, the great bulk of military procurement was negotiated under the authority of title II of the First War Powers Act.

At the close of World War II a study was initiated for the purpose of developing peacetime procurement methods. The proposed bill which evolved from that study was transmitted to the Congress by the Acting Secretary of the Navy, who stated "that its primary purpose was to permit the War and Navy Departments to award contracts by negotiation when the national defense or sound business judgment dictated the use of negotiation rather than the more rigid formal advertising procedures. The Senate Committee on Armed Services in commenting on the purpose of the bill in its report stated:

"This bill, as amended, provides for a return to normal purchasing procedures through the advertising-bid method on the part of the armed services, namely, the War Department, the Navy Department, and the U.S. Coast Guard. It capitalizes on the lessons learned during wartime purchasing and provides authority, in certain specific and limited categories, for the negotiation of contracts without advertising. It restates the rules governing advertising and making awards as well as fixing the types of contract that can be made."

This bill was eventually enacted as the Armed Services Procurement Act of 1947. While it was codified in 1956, with minor amendments, in chapter 137 of title 10, United States Code, this basic law has governed defense procurement for 12 years. The flexibility which its drafters and the Congress built into it in times of peace, the Korean hostilities, and the present cold war. It was and still is a good law. While this characterization is directed toward its provisions for formal advertising and negotiation, the same comment could be made of its other provisions. We sincerely believe this basic law is equal to the tremendous task we face today and visualize in the foreseeable future. This is not to say that some helpful amendments might not appropriately be made. These amendments we shall point out as we now discuss the particular background and development of each of the 17 areas for negotiation.

Exception 1—National emergency

(a) The statute

Pursuant to 10 U.S.C. 2304(a)(1), purchases and contracts may be negotiated if—

"It is determined that such action is necessary in the public interest during a national emergency declared by Congress or the President."

(b) The historical background

The use of negotiation during national emergencies has a long history. In all emergencies, from the Civil War up to World War II, Congress authorized, in varying degrees, the negotiation method of procurement. Brief mention may be made of some of these prior exceptions to formal advertising:

1. In 1864, Congress created "a limited exception to formal advertising by authorizing emergency procurement by Army quartermasters "in the most expeditious manner," when necessary for the operations of any detachment of the Army.

2. Around 1900 when we were involved in various military actions, the War Department was authorized "to procure ordnance items and supplies without advertising.

3. In the crisis created by World War I, the National Defense Act of 1916 "authorized the Secretary of War to procure gages, tools, dies, jigs, fixtures, and other manufacturing aids, including specifications and drawings, without formal advertising. On April 12, 1917, the Secretary of War found that there was an emergency within the meaning of existing statutes providing for advertising and authorized the award of contracts without formal advertising. The Navy Department took similar action.

4. Even before our entry into World War II, the necessity of preparing for whatever eventuality might occur had led the military departments to request and Congress to enact other laws authorizing negotiation. For example, the Army Appropriation Act of 1941 "au-

thorized obligating certain funds without formal advertising. In 1940, the Navy was authorized "to negotiate contracts for the acquisition, construction, or repair of naval vessels, aircraft and machine tools when in the interest of national defense. The Secretary of the Navy had been authorized " earlier in 1940 to contract for construction of naval aviation facilities without formal advertising.

(c) Its present use

Since this national emergency exception has generated so much congressional interest in the past, it is appropriate that this discussion fully explain where and why we use this authority and explore the possibilities of its future use. In doing so, our treatment of this first exception will necessarily be somewhat longer than that accorded some of the other exceptions which will follow.

Although the national emergency declared pursuant to Presidential Proclamation 2914, dated December 16, 1950, still exists, the Assistant Secretary of Defense (S. & L.) has restricted the use of this very broad negotiation authority to three specific situations. These are—

(1) procurements unilaterally set-aside for small business firms;

(2) procurements made in keeping with our surplus labor area and disaster area programs; and

(3) procurements of property and services in connection with experimental, development, test, or research work from other than educational institutions, where the contract is over \$2,500 but not more than \$100,000.

(1) *Small business*.—One of the important elements of the Department's small business program is our set-aside procedure, where we reserve for exclusive small business participation individual, or classes of, procurements. Whether formal advertising or negotiation procedures are used, a set-aside consists, in brief, of reserving all, or a portion, of the procurement for small business concerns. The resulting contracts are negotiated contracts, even when small business restricted advertising is used. This is so because restricting competition is inconsistent with a cardinal principle of formal advertising, namely, that there be full and free competition.

Since the Small Business Act expressly authorizes joint set-asides, those made by the contracting officer and a representative of the Small Business Administration, we use exception 17 for such set-asides. For unilateral set-asides, those made by the contracting officer alone, exception 1 is our only authority.

In this connection, section 4(a) of S. 500 would recognize as formal advertising our "small business restricted advertising." In the case of unilateral set-asides, this would give the Department permanent authority where none now exists. As Secretary McGuire testified last summer, we think this provision of S. 500 is meritorious and desirable.

All notes appear in appendix.

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In addition, the Department recommended that specific recognition also be given to similar unilateral small business set-asides in negotiated procurements, which presently are only authorized under this national emergency exception.

(2) *Labor surplus and disaster areas.*—It is our policy to aid labor surplus areas by placing contracts with concerns which will perform them in such areas. We do this to the extent it can be accomplished consistent with our procurement objectives. And in doing so, we comply with the prohibition in the Defense Appropriation Act that no price differentials shall be paid for the purpose of relieving economic dislocations.

Here, again, we utilize set-aside procedures, and, since competition is similarly not "full and free," the resulting contracts are negotiated contracts. Only the temporary authority of exception 1 is currently available for this program.

Since the problems of economic dislocations are a matter of concern to everybody, consideration might be given to establishing some permanent authority for it. Although the disaster area program is activated only on special occasions, such as the destructive floods which Connecticut experienced a few years ago, the comments concerning labor surplus areas are equally applicable in principle to this program also.

(3) *Research and development.*—Since exception 11 expressly authorizes the negotiation of contracts for experimental, developmental, and research work, one may ask why any use of exception 1 is necessary. Section 2310 requires a Secretarial determination and decision before the negotiation authority of exception 11 may be used. With the ever-increasing importance of research and development contracts, the administrative burden of preparing and reviewing the volume of papers going forward to the Secretary for such decisions seemed all out of proportion to the need being served. Research and development work cannot be formally advertised. To require, then, all this paperwork merely for the Secretary to find what was readily apparent—that research and development work was involved—seemed no real purpose.

Accordingly, the decision was made that for the duration of the present national emergency such contracts in the amount of \$100,000 or less would be negotiated under exception 1. This has been most helpful. During fiscal year 1959, for example, 10,404 research and development contracts for \$225 million of new procurement were negotiated under the national emergency exception. On the other hand, only 2,446 such contracts, but involving \$1.4 billion, were negotiated following Secretarial determinations and decisions under exception 11.

Section 6 of S. 500 would authorize Secretarial delegation of the authority to make the determinations and decisions required for exception 11. The Department believes this is a desirable

amendment. If enacted, there would be no reason for using the authority of the national emergency exception for research and development work.

Thus, were these suggested amendments adopted, we would have no occasion to use the authority of this exception during the current national emergency. Only in the event of a future national emergency would its utilization be necessary.

Exception 2—Public exigency

(a) *The statute*

Pursuant to the authority of 10 U.S.C. 2304(a) (2), purchases and contracts may be negotiated if—

"the public exigency will not permit the delay incident to formal advertising."

(b) *The historical background*

As was pointed out earlier, this exception had its origin in the act of June 23, 1850," which we termed a "landmark" statute.

(c) *Its present use*

In order for this authority to be used, there must be a need of compelling and unusual urgency, as when the Government would be seriously injured, financially or otherwise, if the supplies or services were not furnished by a certain date. It is also a prerequisite to the use of this authority that the item could not be procured by the required date by means of formal advertising.

We use this authority, for example, when supplies or services are needed immediately because of a fire or flood, or when essential equipment for or repair to a ship or aircraft are needed at once for performance of their operational missions.

Exception 3—Small purchases

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a) (3), purchases and contracts may be negotiated if—

"the aggregate total involved is not more than \$2,500."

(b) *The historical background*

For many years congressional authority has existed for negotiated procurement of low-dollar items. In 1852, negotiated procurement of Army Ordnance supplies in amounts not more than \$200 was authorized." Similar authorization was granted the Quartermaster General by laws enacted in 1894" and 1898." The amount was raised to \$500 and applied across the board to all supplies in 1906 and 1907 for both the War" and Navy" Departments. This \$500 maximum continued until enactment of the Armed Services Procurement Act of 1947 when it was increased to \$1,000. Finally, in 1958," it was increased to the present ceiling of \$2,500.

(c) *Its present use*

In the previous presentation, as you will recall, we pointed out the large volume of procurement actions which are negotiated under this exception, who

All notes appear in appendix.

and where the contracting officers were who used it and the reason why it is so valuable and necessary an authority in our operations. The reason for this exception lies in the administrative costs of the formal advertising procedures. Because in small dollar purchases, these administrative costs would often outweigh the value of such purchases and would greatly and unnecessarily increase the costs of the procurement of all low dollar items, Congress considered it good business that such purchases should be negotiated. As the Senate Committee on Government Operations stated at the time the ceiling was raised to \$2,500—

"Increased competition and lower prices would flow from the simplification, speed, and similarity to commercial practice [which] regulated negotiation of small procurements would provide. Administrative savings to the Government would also result from the lesser cost in such cases of negotiated procurements as compared with formally advertised procurements."

Widespread informal competition is obtained in our small purchase procedure. As previously stated, ASPR 1-301 requires that our procurements shall be made on a competitive basis, whether by formal advertising or by negotiation, to the maximum practicable extent. This applies equally to small purchases, our requirement being that reasonable solicitation of quotations from qualified sources must be secured for all purchases over \$100. And for procurements of \$100 or less as pointed out earlier, we require such purchases to be distributed equitably over a period of time among qualified suppliers.

Exception 4—Personal or professional services

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a) (4), purchases and contracts may be negotiated if—

"for personal or professional services."

(b) *The historical background*

This negotiation authority is derived, as was the case in exception 2, from the act of June 23, 1850, as incorporated into Revised Statutes 3709. It exempted contracts for personal services from the requirement of formal advertising. However, the amendment to section 3709, in 1946, phrased this exception—

"when the services are required to be performed by the contractor in person and are (A) of a technical and professional nature or (B) under Government supervision and paid for on a time basis."

(c) *Its present use*

Although neither the Armed Services Procurement Act nor its codification in 10 U.S.C. 2304(a) (4) carried forward the limiting language of the 1946 amendment, the Department of Defense has considered that the use of this authority for personal services is subject to the

All notes appear in appendix.

same conditions as embodied in that amendment. Accordingly, in the case of personal services, we require not only that they must be performed by a contractor in person (not by a firm), but also they must either be of a technical nature or must be performed under Government supervision and paid for on a time basis. Substantially the same conditions apply to professional services, except they may be performed either by an individual contractor or by a firm.

Our use of exception 4 is not extensive.

Exception 5—Services of educational institutions

(a) *The statute*
Pursuant to the authority of 10 U.S.C. 2304(a) (5), purchases and contracts may be negotiated if—

"for any service to be rendered by any university, college, or other educational institution."

(b) *The historical background*

This negotiation authority originated in the Armed Services Procurement Act of 1947. It was inserted in the armed services procurement bill by the Senate in order to permit the military departments to negotiate contracts for necessary research assistance and for the training of personnel sent to educational institutions.

(c) *Its present use*

Our use of this negotiation authority is for—

(i) educational or vocational training services to be performed by educational institutions in connection with the training and education of personnel, and for necessary material and supplies incidental thereto, and

(ii) experimental, development, or research work and analyses, studies, or reports, to be conducted by such institutions.

Exception 6—Purchases outside the United States

(a) *The statute*
Pursuant to the authority of 10 U.S.C. 2304(a) (6), purchases and contracts may be negotiated if—

"for property or services to be procured outside the United States, and its territories, possessions, and Puerto Rico."

(b) *The historical background*

The Navy, since 1848, had a similar, although more limited, authority to purchase supplies "which it may be necessary to purchase out of the United States for vessels on foreign stations."¹ The legislative purpose of broadening this negotiation authority in the Armed Services Procurement Act of 1947 was to enable contracting officers in overseas areas to conform to business methods in general use in those areas.

(c) *Its present use*

We use the authority of this exception to procure supplies to be shipped from, delivered, and used, or services to be performed, outside the United States, its territories, possessions, and Puerto Rico—regardless of the place where the contract is negotiated or executed.

Exception 7—Medicines or medical supplies

(a) *The statute*
Pursuant to 10 U.S.C. 2304(a) (7), purchases and contracts may be negotiated if—

"for medicine or medical supplies."

(b) *The historical background*

As far back as 1846, Congress authorized² the Navy Department to negotiate the purchase of medicines in lieu of formal advertising, and, in the act of February 27, 1893,³ also authorized the negotiation of contracts for medicines and medical supplies by the War Department.

(c) *Its present use*

This negotiation authority is used with respect to such supplies as are peculiar to the field of medicine. These include technical equipment such as surgical instruments, surgical and orthopedic appliances, X-ray supplies and equipment, and the like; but not prosthetic equipment. We do not use exception 7, however, if the procurement may also be negotiated under the exceptions for small purchases or overseas procurement.

Further, whenever it is practicable to do so, we give suitable advance publicity of at least 15 days of the proposed purchase where the probable cost of the procurement will exceed \$10,000.

Exception 8—Supplies purchased for authorized resale

(a) *The statute*
Pursuant to 10 U.S.C. 2304(a) (8), purchases and contracts may be negotiated if—

"for property for authorized resale."

(b) *The historical background*

Although this exception provides for what is literally a new grant of authority in the enactment of the Armed Services Procurement Act of 1947, nevertheless it was intended that this authority should ordinarily be used only for purchases of articles with brand names or of a proprietary nature, as requested by patrons of retail activities. So limited, this exception amounts to little more than a specific application of the general exception to Revised Statutes, section 3709, for proprietary purchases where it is impractical to secure competition.

(c) *Its present use*

As just indicated, we limit our use of this negotiation authority to brand name items and articles of a proprietary nature which a retail activity must carry to meet the demands and preferences of its customers. Here also, we require, whenever it is practicable, suitable advance publicity of the proposed purchase when the probable cost of supplies purchased for authorized resale under this exception will exceed \$10,000.

Exception 9—Perishable and nonperishable subsistence supplies

(a) *The statute*
Pursuant to 10 U.S.C. 2304(a) (9), pur-

All notes appear in appendix.

chases and contracts may be negotiated if—
"for perishable and nonperishable subsistence supplies."

(b) *The historical background*

The Navy Department had specific authority to procure certain perishable subsistence items without advertising for a long time, namely, butter and cheese since 1847,⁴ preserved meats, pickles, and dried vegetables since 1861,⁵ and flour and bread since 1867.⁶

In section 2(o) (9) of the Armed Services Procurement Act of 1947, the exception was broadened to include all perishable subsistence supplies. The purpose in enlarging this authority was well expressed in the report of this committee made at that time:

"Many of these [perishable subsistence items] cannot be described in the usual manner and their specifications are normally inadequate to provide a basis for advertising for bids. Under the advertisement system, the produce distributor is required to guarantee the availability of a specific quantity of a predetermined quality at a stated place at a specified future date. This he is usually unable to do. Thus, the only businesslike method of buying such items is by evaluation after visual inspection at the time and place such perishable items are offered, and by purchase at current wholesale prices. Common produce items such as tomatoes or lettuce furnish excellent examples. Delay of only a few days in marketing items such as these seriously influence the factor of 'freshness' which is paramount in determining the quality and, therefore, in determining a reasonable price."

Finally, by an amendment effective August 28, 1958, this exception was further broadened to cover nonperishable subsistence supplies as well. The marketing methods employed for such nonperishables as canned goods and frozen foods had demonstrated the need to negotiate the requirements for such supplies while in the crop stage, something not feasible under the formally advertised method of procurement.

(c) *Its present use*

The negotiation authority of exception 9, as indicated above, is used for the purchase of all subsistence supplies, both perishable and nonperishable, except when the procurement is also authorized by the small purchase and overseas procurement exceptions.

Exception 10—Supplies or services for which it is impracticable to secure competition by formal advertising

(a) *The statute*
Pursuant to 10 U.S.C. 2304(a) (10), purchases and contracts may be negotiated if—

"for property or services for which it is impracticable to secure competition."

(b) *The historical background*

In enacting the Armed Services Procurement Act of 1947, this exception was intended to make available to all the armed services a similar exception from

All notes appear in appendix.

All notes appear in appendix.

formal advertising given to the War Department in 1901, for purchases "where it is impractical to secure competition." The Attorney General and the Comptroller General had consistently ruled¹ that formal advertising was not required by section 3709 of the Revised Statutes in circumstances which made competition impracticable.

However, the congressional committee who considered the armed services procurement bill were aware that there had been a long line of strict interpretations of section 3709 (for the most part by the Comptroller General), as the result of which the Comptroller frequently had overruled decisions of Government purchasing agencies on the question whether or not it was in fact impracticable to secure competition in a given case. In this connection, the report of this committee stated:

"In advising this section the committee is aware that there has been a long line of strict interpretations placed upon contracts or purchases made where agencies felt it was impracticable to secure competition. It believes that under the terms of earlier legislation such decisions were probably in accord with the intent of Congress. However, this section is intended to place the maximum responsibility for decisions as to when it is impracticable to secure competition in the hands of the agency concerned. The experiences of the war and contracts negotiated since the war in the fields of stevedoring, ships' repairs, chartering of vessels, where prices are set by law or regulations, or where there is a single source of supply, have shown clearly that the competitive bid-advertising method is not only frequently impracticable but does not always operate to the best interests of the Government. It is, therefore, intended that this section should be construed liberally and that review of these contracts should be confined to the validity and legality of the action taken and should not extend to reversal of bona fide determinations of impracticability where any reasonable ground for such determination exists."

(a) *Its present use*

Numerous situations, which were referred to in the committee hearings just mentioned, have been expressly enumerated in ASPR 3-310.3. These are representative of examples of purchases wherein formal advertising is not feasible and, therefore, as to which it is impracticable to secure competition within the meaning of the negotiation authority of exception 10. Such is the case, for example, (i) when there is a single source of supply; (ii) when it is impossible to draft adequate specifications or an adequate description for use in an invitation for bids; (iii) when supplies or services are proprietary to one supplier because of patent rights, secret

All notes appear in appendix.

processes, control of basic raw materials, or similar conditions; and (iv) when the supplies or services are of a special nature such as public utility services, individual maintenance or repair work, stevedoring and warehousing services, training film or motion picture productions, and the like.

We have recognized that use of this broad negotiation authority must be controlled. Accordingly, definite steps have been taken to circumscribe its use.

Notwithstanding the fact that chapter 137 of title 10 does not require any determination and decision to be made before the authority of this exception may be used, ASPR 3-210.3 specifically lays down this requirement. Every contract negotiated under this authority must be accompanied by a signed statement of the contracting officer justifying its use. We also require a copy of this statement to be sent to the General Accounting Office with a copy of the contract.

Additionally, ASPR 3-210.3 imposes the further requirement in any procurement in excess of \$50,000, where the reason for the proposed use of exception 10 is because "it is impracticable to draft specifications adequate for formal advertising," that the decision to negotiate on such basis must be made at a higher level than that of the contracting officer.

Finally, we have provided that exception 10 may not be used when negotiation is expressly authorized by any other exception, other than exception 12.

Exception 11—Experimental, developmental, or research work

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(11), purchases and contracts may be negotiated if—

"for property or services that the Secretary determines to be for experimental, developmental, or research work, or for making or furnishing property for experiment, test, development, or research."

(b) *The historical background*

This exception is substantially a restatement and an extension to other military departments, of the authority given to the Navy Department by the act of August 1, 1916,² which established the Office of Naval Research. Section 6 of that act authorized the negotiation of experimental, developmental, and research contracts.

It was felt by Congress that the experience gained before and during World War II proved that the continuation of programs for research and development was of prime importance and that the very nature of such programs and of contracts related thereto was inconsistent with procurement by formal advertising. Not only was the field of possible contractors in many cases very limited, but also a research or development contractor would usually have to be selected on the basis of special skills and exceptional facilities in much the

All notes appear in appendix.

same manner that an individual would seek the services or professional advice of an expert. Furthermore, in research and development contracts, it is impossible to make accurate forecasts of costs, thereby making it necessary to enter into cost-reimbursement-type contracts, which, on the one hand, are not permitted with respect to contracts entered into by advertising and, on the other hand, require greater care and independence of contracting than would be necessary in the case of fixed-price contracts or would be possible in the case of procurement by advertising.

(c) *Its present use*

This negotiation authority is basically twofold: (i) applying to experimental, developmental, or research work; and (ii) applying to the furnishing of supplies for such work. With respect to the former, we use this authority for (i) contracts relating to theoretical analysis, exploratory studies, and experimentation in any field of science or technology; (ii) development contracts calling for the practical application of investigative findings and theories of a scientific or technical nature; and (iii) services, tests, and reports incidental to the foregoing. With respect to the latter, we use this authority for the purchase of equipment or supplies (such as parts, accessories, patent rights thereto, and drawings and design thereof) necessary for and used in connection with any existing research or development program.

We do not use this exception, of course, to purchase any and all supplies used in research and development work. For example, if coal or oil is needed to heat a building in which research work is being done or is used in connection with testing research equipment, procurement is effected by formal advertising, not by negotiation under this exception.

Additionally, we do not use this negotiation authority for quantity production contracts. However, a research or development contract which calls for the production of a reasonable number of experimental or test models or prototypes, is not regarded as a contract for quantity production.

As we pointed out earlier, contracts negotiated with educational institutions for this type of work are negotiated under the authority of exception 8. We also discussed under exception 1 the fact that, and the reasons why, contracts for research and development work under exception 11. All we wish to add to our previous remarks is to repeat our support of section 6 of S. 809, which would permit a Secretary to delegate the authority to make the determinations and findings now required by 10 U.S.C. 2311.

Exception 12—Classified purchases

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(12), purchases and contracts may be negotiated if—

"for property or services whose procurement the Secretary determines should not be publicly dis-

closed because of their character, ingredients, or components."

(b) *The historical background*

Although this exception is substantially a new negotiation authority, at least in its broad coverage and in its extension to all the services, nevertheless there have been in existence three Army statutes which granted certain negotiation authority along the lines of the authority granted by this exception 12. Thus, the act of May 11, 1908, authorized the War Department to purchase ordnance equipment in such a manner as was deemed most economical and efficient, whenever the public interest would be injured by publicly divulging the character or ingredients of such equipment; the act of May 18, 1936, extended the aforementioned authority to cover chemical warfare and signal property; and the act of July 13, 1939, extended the authority to cover aircraft parts, instruments, and aeronautical accessories.

(c) *Its present use*

We use this authority for contracts classified "confidential" or higher, or where because of other considerations, such as when the quantity of an unclassified item being purchased might be of strategic significance to a potential enemy, the contract should not be publicly disclosed. AGPR 2-212.3 also prohibits the use of this exception when negotiation is authorized by any other of the 17 exceptions, except exception 4.

Here, also, as in regard to exception 11, the Department favors enactment of section 6 of S. 800.

Exception 12—Technical equipment requiring standardization and interchangeability of parts

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(13), purchases and contracts may be negotiated if—

"for equipment which he (the Secretary) determines to be technical equipment when standardization and the interchangeability of whose parts are necessary in the public interest and whose procurement by negotiation is necessary to assure that standardization and interchangeability."

(b) *The historical background*

This exception originated in the Armed Services Procurement Act of 1947. It grew out of the need to be able to negotiate purchases of additional units and replacement spare parts and items, the initial procurement of which, for the most part, would have been made by competitive procurements. Congress agreed that the military importance and the financial savings resulting from standardized equipment and interchangeable parts made it essential that we be able to standardize on major items of technical equipment; and, having done so, that additional or replacement units and interchangeable spare parts be procured by negotiation.

(c) *Its present use*

Since standardization of equipments restricts normal competition and results in most cases in noncompetitive procurement, we have prescribed very specific criteria which must be met before a determination to standardize technical equipments and related components and spares may be made:

(i) The items must be for tactical use or for use in theaters of operations, or on board naval vessels, or at advanced or detached bases. Thus, items of technical equipment which are for exclusive use in the continental United States are not frequently standardized.

(ii) The determination must be reviewed at least every 2 years.

(iii) The determination cannot be utilized for the initial procurement of the related equipment or parts. It may apply, however, to the procurement of later types and models of the particular equipment which has been standardized.

(iv) A current or recurring requirement for the equipment must exist.

In making a determination to standardize on specific technical equipment, consideration is also given to such factors as (i) the effect of the proposed standardization upon the capability to procure the equipment at reasonable prices; (ii) the practicability of interchangeability of parts and cannibalization of equipment; and (iii) whether standardization will appreciably reduce the quantity of spare parts that must be carried in stock.

Standardization determinations have been made, for example, in the field of small engines and trucks.

This exception also requires a Secretarial determination and finding before its authority may be used. Unlike the cases of exceptions 11 and 12 where the Department favored the enactment of section 6 of S. 800, the responsibility to make determinations and decisions under the exception 13 should not be delegated below the secretarial level. The authority to negotiate procurement of one or two manufacturers' products to the exclusion of others must be safeguarded. Accordingly, the Department recommended last summer that the present statutory requirement that determinations and decisions under exception 13 be made at the secretarial level should be maintained.

Exception 14—Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(14), purchases and contracts may be negotiated if—

"for technical or special property that he (the Secretary) determines to require a substantial initial investment or an extended period of preparation for manufacture and for which he determines that formal advertising and competitive bidding might require duplication of

investment or preparation already made, or would unduly delay the procurement of that property."

(b) *The historical background*

This exception also originated in the Armed Services Procurement Act of 1947. It grew out of the need to be able to negotiate contracts for such technical and complex items as aircraft, tanks, radar, missiles, rockets, and other such items of specialized equipment. The feeling of Congress concerning the necessity for, and purpose of, this authority was well expressed by the House Armed Services Committee:

"... This authority is essential for the proper procurement of such items as military and naval aircraft, tanks, military and naval radar, guided missiles, rockets, and other technical equipment. To award contracts for such items after advertising for sealed bids would be highly time-consuming and wasteful and would leave the procuring service with no assurance that it would secure supplies of the proper quality.

"Such items can be procured to the best advantage from a contractor who, as a result of having developed the item for its production, has already done a considerable amount of preparatory work and acquired the necessary know-how and shop practices which are the core of all mass-production techniques by which intricate mechanisms of high quality are produced rapidly and cheaply. To award a contract for such an item to the lowest bidder would mean either that it would go to a contractor entirely unfamiliar with the item but who has unwittingly made a low bid, or that it would go to the trained contractor, whose bid would only have to be low enough to shade any other bidder, and so might include some or all of the tooling and other preparatory charges previously incurred, and thus permit an unreasonable profit. If the award should be made to the untrained contractor, he would then have to go through the entire development and educative processes, thereby delaying the ultimate production of the item, with no assurance that it would ever be produced properly. Furthermore, where the unsuccessful bidder has previously had Government development contracts, the money spent on these contracts both by the Government and the contractor, will have been largely wasted. On the other hand, if the services have the authority to negotiate such purchases, they can give the contract to the contractor already familiar with the item and negotiate the price on the basis of a careful analysis of the estimated costs and actual cost experience, to be certain that the Government will secure the full benefit of any development contracts previously performed by the contractor. In addition, because of his already acquired production experience, the high degree of quality necessary in

such items can thereby be reasonably assured."

(c) *Its present use*

As the above so well indicates, this negotiation authority is used where it is preferable to place a production contract with the supplier who developed the equipment. This assures to the Government the benefits of the techniques, tooling, and equipment already acquired by that supplier. It also avoids undue delay arising from the fact that a new supplier would have to acquire such techniques, tooling, and equipment.

The use of this exception generally involves important background factors, such as (1) high starting costs; (2) preliminary engineering and development work not usable by another supplier; (3) elaborate special tooling; (4) substantial time and effort already expended in prototype development; and (5) the likelihood of important design changes.

We limit the use of this negotiation authority, of course, to technical or specialized supplies, examples of which we have already listed.

Finally, we wish to state, as we did under exceptions 11 and 12, that the Department of Defense supports section 8 of S. 800 in its application to exception 14.

Exception 15—Negotiation after advertising

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(18), purchases and contracts may be negotiated if—

"for property or services for which the [the Secretary] determines that the bid prices received after formal advertising are unreasonable as to all or part of the requirements, or were not independently reached in open competition, and for which (A) he has notified each responsible bidder of intention to negotiate and given him reasonable opportunity to negotiate; (B) the negotiated price is lower than the lowest rejected bid of any responsible bidder, as determined by the head of the agency; and (C) the negotiated price is the lowest negotiated price offered by any responsible supplier."

(b) *The historical background*

This exception also originated in the Armed Services Procurement Act of 1947. Its purpose is to protect the Government in situations where formal advertising is at first used, but results in excessive or collusive bids. In either of these situations, the only effective course of action is to negotiate in order to break the price line and thereby obtain the needed supplies at reasonable prices. Even though resort might be made in certain cases to the antitrust laws, any relief resulting therefrom would be too slow and too late to be of practical use.

(c) *Its present use*

We use this negotiation authority in the circumstances mentioned above. Resort to this exception permits us to obtain the supplies when needed and

All notes appear in appendix.

at reasonable prices. At the same time, it also permits initiation of corrective action to prevent recurrence of collusive bidding in any case where further investigation revealed violations of the antitrust laws. In this latter connection, 10 U.S.C. 2305(a) requires that any evidence of bids not independently arrived at be referred to the Attorney General for appropriate action.

Here again, the Department favors section 8 of S. 800, which, if enacted, would permit the Secretaries to delegate the determinations and decisions now required to be made by them under exception 15.

Exception 16—Purchases in the interest of national defense or industrial mobilization

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(16), purchases and contracts may be negotiated if—

"[The Secretary] determines that (A) it is in the interest of national defense to have a plant, mine, or other facility, or a producer, manufacturer, or other supplier, available for furnishing property or services in case of a national emergency; or (B) the interest of industrial mobilization in case of such an emergency, or the interest of national defense in maintaining active engineering, research, and development, would otherwise be subserved."

(b) *The historical background*

The principle of this exception was recognized in the act of June 16, 1936,¹ under which the Secretary of War was authorized, subject to the approval of the President, to place so-called educational orders for special munitions with selected concerns in order to familiarize them with their manufacture. The experience of World War II made this negotiation authority essential. In a national emergency, such as the one declared on December 16, 1950, there is not time for the reorganization of industrial strength so as to speedily adapt to the needs of war. The purpose of this exception, then, is to serve as an instrument of preparedness by permitting the development of industrial facilities and production know-how necessary to keep pace with industrial requirements which arise out of the discovery and application of new weapons. It also is necessary in order to maintain a basic core of plants, facilities, and skills which will be available when and if needed.

(c) *Its present use*

This exception is used to carry out such plans and programs as are evolved under the direction of the departmental Secretaries to provide incentives to manufacturers to maintain and keep active engineering and design staffs and manufacturing facilities for mass production. It is used, for example, (1) whenever it is necessary to keep vital facilities or suppliers in business or to make them available in the event of a national emergency, and (2) when it is necessary to negotiate with certain suppliers to train

All notes appear in appendix.

them in the furnishing of critical supplies to prevent the loss of their availability or employee skills, or to maintain active engineering, research, and development work.

Exception 17—Otherwise authorized by law

(a) *The statute*

Pursuant to 10 U.S.C. 2304(a)(17), purchases and contracts may be negotiated if—

"otherwise authorized by law."

(b) *The historical background*

This exception originated in the Armed Services Procurement Act of 1947. Its purpose was to preserve the statutory authority to negotiate contracts as contained in permanent legislation and not repealed by the Armed Services Procurement Act of 1947. It is also important to note that this exception has the effect, in addition to preserving the negotiation authority of prior permanent legislation, of permitting negotiation under any relevant after-enacted law, such as title II of the First War Powers Act as it existed during its reactivation and prior to its expiration in 1953. Certain relatively major preexisting acts were specifically referred to in the hearings held on the Armed Services Procurement bill as illustrating earlier laws which would be preserved by virtue of exception 17. These are—

1. The Aircraft Procurement Act of 1926.²
2. Architectural or Engineering Services: Act of April 25, 1939.³
3. Transportation Services by Common Carriers: The Transportation Act of 1940.⁴
4. Services and Materials for Research: Act of August 1, 1946.⁵
5. Temporary Employment of Experts and Consultants: Act of August 2, 1946.⁶

(c) *Its present use*

In addition to the above, we use exception 17, as has previously been mentioned, in negotiating the procurement of joint set-asides for small business.

CONSTRUCTION WORK

All our discussion up to now has been directed toward the procurement of supplies and services. Our treatment would not be complete, however, unless we also cover construction, for 10 U.S.C. 2304(a) also applies to the procurement of public works, buildings, and facilities.

By virtue of section 2304(c), certain of the exceptions we have just gone over are inapplicable to procurement of construction work within the United States. This section does not authorize negotiation of a contract to construct or repair any building, road, sidewalk, sewer main, or similar item, unless it is made under exceptions 1-3, 10-12, or 18.

Although this statutory preference for formally advertised procurement of construction does not apply if it is to be performed outside the United States, it is our policy to formally advertise such procurements whenever it is possible to do so. Where formal advertising is not

All notes appear in appendix.

feasible for construction work outside the United States, negotiation may be used. Exception 6 is normally used, but any of the 17 exceptions may be used if more appropriate. We do not, however, permit the use of exception 6 for any construction work to be performed in the territories or possessions of the United States or in Puerto Rico.

Thus, the procurement statutes under which we operate have grown out of the experience of 150 years. This discussion, we trust, has shown both the background of our present procurement law and why its provisions are still necessary for proper accomplishment of defense procurement.

APPENDIX

1. Act of May 8, 1792, 1 Stat. 279-280.
2. The Navy Department was established by the act of Apr. 30, 1798, 1 Stat. 553. Prior to that time the Secretary of War directed U.S. naval forces. The War Department had been established by the act of Aug. 7, 1789, 1 Stat. 40.
3. 1 Stat. 610.
4. Act of Mar. 3, 1809, 2 Stat. 588.
5. 3 Ops. Atty. Gen. 257 (1829). See also 6 Ops. Atty. Gen. 406 (1854), 6 Ops. Atty. Gen. 99 (1853), 3 Ops. Atty. Gen. 437 (1839).
6. 5 Stat. 526.
7. Act of Mar. 8, 1843, 5 Stat. 617. In 5 Ops. Atty. Gen. 80 (1848) this statute was construed as applying to "current and necessary expense" of the Navy and not to a contract for construction of an embankment.
8. 10 Stat. 93.
9. Act of June 23, 1860, 12 Stat. 108-104.
10. See, e.g., 17 Ops. Atty. Gen. 84 (1881); 38 10, 164, 176 (1935); 1 Comp. Gen. 748 (1922); 7 Id. 283 (1927); 26 Id. 470 (1949).
11. Act of Dec. 18, 1941, 55 Stat. 83.
12. S. Rept. No. 571, Armed Services Committee, 80th Cong., July 18, 1947, p. 27.
13. Id., at 1.
14. Act of Feb. 19, 1948, 62 Stat. 21-26, 10 U.S.C. 2301-2314.
15. 13 Stat. 396.
16. The Spanish-American War (1898), the Philippine Insurrection (1899-1902), the Boxer Rebellion (1900).
17. Acts of June 7, 1898, and Mar. 8, 1899, 30 Stat. 434, 1851.
18. 39 Stat. 213, 50 U.S.C. 82 (b).
19. 53 Stat. 356.
20. 54 Stat. 676.
21. 54 Stat. 400.
22. Note 9 supra.
23. 27 Stat. 153.
24. 28 Stat. 328.
25. 30 Stat. 322.
26. 34 Stat. 358.
27. 34 Stat. 1194.
28. Act of Aug. 26, 1956, Public Law 85-800.
29. S. Rept. No. 2201, Government Operations Committee, 85th Cong., Aug. 5, 1958.
30. 60 Stat. 809.
31. Act of Mar. 8, 1945, 5 Stat. 794, Rev. Stat. 8721.
32. Ibid.
33. 37 Stat. 483. The act of Oct. 10, 1940, 54 Stat. 1110, consolidated this authority with other exceptions to Rev. Stat. 3709.
34. 9 Stat. 172, Rev. Stat. 8721.
35. 12 Stat. 265, Rev. Stat. 3725.
36. 12 Stat. 816, Rev. Stat. 3727.
37. S. Rept. No. 571, supra note 12, at 7-8.
38. 31 Stat. 808.
39. Note 10 supra.
40. S. Rept. No. 571, supra note 12, at 8.
41. 60 Stat. 780, 10 U.S.C. 7522.
42. 58 Stat. 126.
43. 48 Stat. 1377.
44. 58 Stat. 1000.
45. H. Rept. No. 109, Armed Services Committee, 80th Cong., Mar. 10, 1947, pp. 18-14.
46. 58 Stat. 707.

47. 44 Stat. 787 (1926), now codified in 10 U.S.C. 2271-2279 (1958).
48. 53 Stat. 531 (1939), now codified in 10 U.S.C. 7214 (1958).
49. 54 Stat. 524, 49 U.S.C. 65 (1933).
50. 60 Stat. 780 (1946), now codified in 10 U.S.C. 7523 (1958).
51. 60 Stat. 810 (1946), 5 U.S.C. 55a (1962).

ADVANTAGES AND LIMITATIONS OF FORMAL ADVERTISING

In the preceding presentation, we have seen how quickly the early feeling in our Government, that all military procurement could be formally advertised, had to be revised. We have also seen how the experience accumulated over ensuing years demonstrated extensive additional areas where formal advertising was not in the best interests of the Government. In fact, at the time the Armed Services Procurement bill was being considered by Congress, the large majority of the 17 exceptions then enacted had a specific or analogous precedent in legislative history.

Yet, in recent years, the role of formal advertising and negotiation in defense procurement have been much discussed. Some contend that formal advertising should be expanded. Others, with equal sincerity, feel that it has largely outlived its usefulness in the modern era of complex weaponry. Somewhere between these two extremes lies the true fact. In order properly to evaluate the role of formal advertising today and see it in its correct perspective, we should examine its operating requirements and the advantages and limitations inherent in its use.

THE MECHANICS OF FORMAL ADVERTISING

We feel it would be helpful to describe, in a general way, the mechanics of formal advertising. The process begins when a military activity, which needs a certain product or service, describes the item or items in a purchase request. This it submits to the purchasing activity which does its buying. The requiring activity is held responsible for referring to all applicable specifications, plans, or drawings, or, if nothing better is available, for providing a purchase description which adequately specifies all the essential features of the item needed. Once the contracting officer has determined that the procurement is susceptible of formal advertising, the next step is to transfer the information contained in the requisition to the schedule of an invitation for bids that will be issued, in such terms that the requirements of the Government are completely defined. It is the individual contracting officer's responsibility to determine that the terms and conditions included in the schedule of the invitation for bids fully and completely describe the needs of the Government.

Complete invitations are circulated as widely as possible, in order to obtain maximum competition. There are various ways of soliciting bids, the principal method being the mailing or delivering of invitations to the prospective bidders. Mailing lists of bidders are kept at purchasing activities to provide ready in-

formation on current sources of supply. All suppliers who appear to be qualified and eligible to fill the requirements of a particular procurement are carried on the appropriate mailing list. Additional methods of soliciting bids include the displaying of copies of the invitation at the purchasing office and at other appropriate public places; publishing brief announcements of proposed purchases in trade journals; and, in some instances, by publishing the essential details of a proposed purchase in newspapers. In addition, with certain exceptions dictated by practical considerations (ASPR 2-206.1), all unclassified procurements in the United States, which might result in an award of contracts in excess of \$10,000, are given widespread publicity in the Department of Commerce publication, "Synopsis of U.S. Government Proposed Procurement, Sales and Contract Awards."

Each invitation for bids sets forth a specific place, date, and hour for the opening of bids. The invitations are circulated a sufficient time in advance of the opening date so that all those who care to bid are afforded an adequate opportunity to prepare and submit their bids. Under the law, it is the responsibility of each bidder to insure that his bid is submitted in time to be received in the office designated in the invitation by the exact hour specified for the opening of bids.

At this specified hour, all bids are publicly opened and read aloud. The names of the bidders and the prices bid are recorded on an abstract of bids, which is available for public inspection. Except in the case of a mistake in bid alleged and conclusively proved—in accordance with a most detailed procedure—no bidder may be permitted to withdraw his bid once bids have been opened.

The contracting officer next faces the considerable and often extremely difficult job of evaluating the bids received. This is the process of determining whether each bidder's offer meets the requirements of the invitation, both as to what is offered and as to the contractual terms as well. During evaluation, he may be faced with the necessity of eliminating some bids from consideration or even in some circumstances of rejecting all bids and re-advertising the procurement. Ordinarily, any bid which does not conform in every respect to the essential requirements of the invitation for bids is rejected. The basic principle applied in determining whether a bid meets the essential requirements of the invitation is whether any deviation in what is offered by the bidder affects the price, quantity, or quality of the item or the contract terms specified by the Government; if it does, the contracting officer must reject the bid. Nor can the bidder be permitted an opportunity to cure such a defect after the bids have been opened.

In this connection, to be eligible for award of a contract, any bidder whose bid has been determined to be "responsive" to the invitation, must also be determined to be "responsible." This

means that the contracting officer must establish that the prospective contractor is a manufacturer or regular dealer in the supplies sought; that he has adequate financial resources; that he can comply with the delivery schedule; that he has a satisfactory record of prior performance and integrity and is otherwise qualified and eligible to receive an award under applicable laws and regulations. This is usually accomplished by a preaward survey, which was referred to in the initial paragraph of this article.

Finally, the contracting officer must determine which bid actually offers the Government the lowest price. To do this, he must take into account the actual price bid and additional factors such as offered discounts, price escalation provisions, transportation costs, and the like. Award of a contract will finally be made to the lowest responsible bidder who survives all of the above evaluation, whose bid conforms to the essential provisions of the invitation for bids, and whose price is found to be fair and reasonable.

Even this brief outline of formal advertising procedures shows that it is a substantial and complex process involving considerable administrative expense. All these steps must be taken in every purchase by formal advertising. Although this discussion has necessarily been quite general, each step of the process could be broken down into a myriad of further considerations and problems. It suffices to say that it is an intricate system which attempts to secure the best result for the Government by the use of widespread competition. Great emphasis must be and be placed on maintaining the integrity of the system to the end that irrespective bidders may know the rules in advance and may be assured of fair and equal treatment. Thus, a great body of rather rigid and inflexible rules has been established by the Comptroller General to protect the interests of both the bidder and the Government. We believe these rules and regulations are essential. The problem is not one of changing these rules, but, rather, assuring the use of this excellent method of procurement in situations where its use is appropriate.

Criteria for Effective Use of Formal Advertising

We have now reached the point where we can discuss the conditions under which formal advertising can be utilized effectively.

There is no disagreement on what the basic prerequisites for formal advertising are. These criteria are:

1. A complete, adequate, and realistic specification or purchase description must be available.
2. There must be two or more suppliers available, willing, and able to compete effectively for the Government's business.
3. The selection of the successful bidder can be made on the basis of price alone, the evaluation of which we have just described.
4. There must be sufficient time to prepare a complete statement of

the Government's needs and the terms upon which it will do business, and to carry out the administrative procedure which we described earlier.

Formal advertising is an excellent method of procurement when these criteria are met. When any one of these essentials cannot be satisfied, it is a completely ineffective method of procurement. Someone once likened these criteria to a four-legged stool. Remove one leg and the stool is ineffective. To appreciate more fully the problem of formal advertising, let us look into these criteria in a little more detail.

APPROPRIATIONS

The necessity for definitive specifications is obviously one of the most fundamental criteria for formal advertising. A sufficiently detailed and complete description of what the Government intends to buy is essential. All bidders must understand what is being bought, without need for further clarification, in order that the product offered will comply with the specifications and will fulfill the Government's need. Thus, any critical dimensions must be spelled out in detail. Any necessary quality requirements must be fully described. At the same time, however, we must avoid imposing unnecessary conditions which would result in disqualifying an otherwise acceptable product because it fails to meet the unessential condition. In short, it is imperative that the essential features of the contemplated contract be spelled out in the invitation for bids, so that all prospective suppliers may compete on an equal basis. In practice, this is a most difficult requirement to meet.

The real problem in writing specifications for technical items (and to a lesser extent for standard items) which are suitable and adequate for use in formal advertising is to convey a complete understanding of what is required. The same word or expression is subject to varying interpretations by different people. The prospective bidder in formal advertising will invariably interpret the specification requirement to his own advantage. It is essential that he do this, otherwise he will lose out in the fierce price competition. A specification is essentially the transfer of knowledge between minds. Each mind will test the words of a specification against his own experience. In formal advertising, the prospective bidder must make his own interpretations in advance with no assistance from the Government. The implication of this situation when buying complicated technical material by formal advertising requires no further elaboration.

Thus, specifications for use in formal advertising must be much more precise than in the case of negotiation. This is so because in advertised procurement there can be no opportunity after the opening of bids to discuss various possible interpretations to be sure of mutual agreement, as there is in negotiated procurements. Also, because competition in formal advertising is limited to price alone, bidders are likely to offer the mini-

mum quality item which will be responsible. This means that the specifications must be impervious to any corner cutting by bidders which might result in the Government's getting an inferior product.

Apart from drafting difficulties, the requirement of complete description in advance results in certain significant disadvantages which are inherent in formal advertising. One such disadvantage is that it tends to preclude utilizing the up-to-the-minute know-how available in industry. The man who has developed and bid on an article which might better meet the Government's needs, and even lose expensively, will find his bid rejected if some essential requirement of the Government's specification is not met.

Closely allied with this problem is yet another inherent limitation of formal advertising: it simply cannot be used when we can only describe what we need in a general way, but need the know-how of American industry to propose a detailed solution of our requirement. It is inconceivable with the spirit of advertised bidding, and has been declared improper by the Comptroller General, to draft an invitation for bids which in effect would allow individual bidders to draft their own specifications.

There were, in fiscal year 1959, over 6,800 cases where the negotiation authority of exception 10 was used solely because it was impossible to draft adequate specifications or an adequate description for use in an invitation for bids. But, even assuming that the initial hurdle of definitive specifications has been cleared, there are other problem areas peculiar to advertised procurement. One area which presents considerable difficulty in practice stems from the inflexible requirements that all bids must conform to all the essential provisions of the invitation, and that no bidder may be allowed to vary his bid after bid opening. Once the sealed bids have been publicly opened and disclosed, there is no further opportunity for discussion between bidders and Government procurement officials looking toward reaching mutual understanding on any basis other than that set forth in the respective bids. These rules are, of course, based on principles of fairplay: that the contract awarded must be the same contract that would have resulted from an award to any other bidder, and that no bidder may be allowed "two bites at the apple."

Formal advertising as a method of procurement is almost entirely a creature of Government. This, in all probability, accounts for the fact that, even though it has been used in our Government for over 100 years, there is in the business community at large an amazing lack of knowledge of its procedures and requirements. This is true with large and small business alike.

Therefore, all too frequently we see a bidder attempt to protect himself against a possible adverse interpretation of a specification which he is not prepared to meet, or to take exception to some material but relatively insignificant provision in the contract, only to learn that the contracting officer must

reject his bid as "nonresponsive." He cannot even allow the bidder to waive his exception. More often than not, a few minutes' negotiation would have ironed out the problem. The result is a loss to all concerned: to the bidder, who has had nothing but a meaningless exercise for his trouble and expense; to the taxpayers who have lost the benefit of the lowest price, as well as the time and administrative expense involved in answering protests and attempting to explain what happened to the disappointed bidder. The necessary rigidity of this phase of formal advertising is perhaps its biggest disadvantage.

This, then, is what is meant when we say that a complete, adequate, and realistic specification is absolutely essential for formal advertising to be effective. Such specifications are, or can be made, available for most consumer goods, services, construction work and certain military supplies where changes in technology are not rapid. The Department of Defense buys such materials and services through formal advertising. However, as was pointed out in our first presentation, the vast preponderance of our procurement dollars is in research and development and in areas of such rapidly changing technology as missiles, aircraft, electronics, naval vessels, tanks or other weapons. The lack of firm specifications and the necessity for utilizing rapidly advancing industrial techniques and invention in contracting for such weapons makes procurement by formal advertising impossible. To attempt to formally advertise in these areas would be foolhardy. To do so would require that deals be frozen, that extensive time be devoted to the development and preparation of detailed specifications, with the result, that we would be buying outmoded weapons.

AVAILABILITY OF SUPPLIERS

The second of the criteria for formal advertising to be effective, and which limits its greater use, is the availability of suppliers who are both willing and able to compete effectively for Government business. This is an obvious requirement, for competition can be obtained under formal advertising only by a willingness and the ability on the part of industry to compete actively on a price basis. In this connection, we know that there are situations in which formal advertising would not necessarily result in the lowest possible price being paid by the Government. For example, take the case of an experienced supplier who has been producing a certain item, and who has developed an efficient method of production for that item. This supplier has long since absorbed starting costs and learning costs. However, there may be newcomers in the field who are attempting to compete with him for the Government business. The prices offered by newcomers will necessarily reflect a factor to cover their learning and tooling costs. Being aware of this—and firms know their competitors—the experienced supplier can take advantage of the situation by not lowering his bid by the full amount of his reduced costs, but rather, lowering his bid just enough to

assure himself of being the lowest bidder. As a result, he would increase his profit, and the Government would not get the benefit of the lowest possible price. In this type of situation, formal advertising does not further the Government's interest. Competitive negotiation should be and is used in this type of case.

COMPETITION BASED ON PRICE ALONE

The third criterion which must be present to permit the effective use of formal advertising is that selection of the successful bidder can be based on price alone. This significantly limits the potential of this method. Formal advertising, by its nature, can result only in a fixed-price type of contract. This prevents the use of various types of contracts which can be "tailor made" to fit individual situations. The sole exception is a fixed-price contract with an escalation clause to cover certain specific and limited eventualities. Formal advertising simply cannot be used where the situation dictates employment of an incentive-type contract, or where the nature of the undertaking is new or so incapable of precise definition that a fixed-price contract would be speculative at best. The Government's interests in such cases must be protected by the use of flexible pricing contracts and techniques which can eliminate contingencies and at the same time provide incentives for reducing costs.

Furthermore, award to a contractor on the basis of price alone results in the Government's getting only the minimum quality goods which meet the specifications. Under formal advertising, award cannot be made to a bidder who offers a better all-round value for a slight increase in price.

SUFFICIENT TIME

The final practical limitation on the use of formal advertising involves the element of time. To permit effective use of formal advertising, the situation must allow for adequate time to carry out the mechanical process of advertising. As we mentioned earlier, some of the necessary but frequently time-consuming steps are: painstaking preparation of the invitations for bids; allowance of adequate time for publicity and preparation of bids; evaluation of the bids received—which in many instances can be a difficult and time-consuming task in itself—and the checking of the responsibility of the lowest responsive bidder. If the exigencies of the particular situation preclude the proper carrying out of each of these steps, formal advertising cannot be and is not used.

EFFECTIVE PROCUREMENT WHEN FORMAL ADVERTISING CRITERIA CANNOT BE MET

In view of the criteria just discussed, one might ask what can be done and what, in fact, do we do, when any one of these criteria for effective use of formal advertising cannot be satisfied. The answer is, we negotiate. As was pointed out in the previous presentation concerning the historical development on our two procurement methods, Congress has not been unaware of these procurement

problems and has taken definitive action to resolve them. In fact, most of the present 17 exceptions authorizing negotiation originated years ago because of the difficulties that were experienced when these criteria for formal advertising could not be met.

Thus, where specifications adequate for formal advertising cannot be made available, Congress has authorized and we use exception 10. Where sufficient suppliers, willing and able to compete effectively for defense business, are not available, negotiation is the only effective method of procurement. Examples of this may be seen in exception 8, under which brand-name articles for resale are purchased, in exception 12, under which the standardized equipment of certain manufacturers is bought, and in exception 14, under which technical equipment requiring a substantial initial investment or an extended period of preparation for manufacture is procured. Similarly, where award of a contract cannot be made on the basis of price alone, as in procurement of personal and professional services or research and development work, we negotiate. For example, for personal and professional services we use the authority of exception 4 and for research and development work we use exceptions 1 or 11, as explained earlier. Again, during war or other national emergency, when time is so important, we are authorized and do negotiate under exception 1; moreover, in times of peace, when the urgency of the requirement would be defeated by the delay incident to formal advertising, Congress has authorized negotiation under exception 2.

Additionally, Congress recognized that it was contrary to the Government's interest to incur the substantial administrative costs of formal advertising for low-dollar-value procurements and, therefore, authorized the negotiation of all small purchases under exception 3.

After all, our goal is to make the soundest and most economical procurement possible. Neither formal advertising nor negotiation is an end in itself. Rather, they are the methods or means by which we seek to achieve this goal. As we have pointed out, when the criteria for effective use of formal advertising are present, this method of procurement is an excellent means of attaining our objective; when they are not present, however, the means of achieving that end are to be found in negotiation. In sum, our goal can be achieved in any procurement only by an intelligent and discriminating selection of that method of procurement which the particular circumstances at hand dictate.

SPECIFICATIONS

Several references have been made to specifications in the course of these presentations. We discussed them, first, in connection with the authority to negotiate under exception 10. Secondly, in the preceding presentation, we pointed out the importance of specifications to the effective use of the formal advertising method of procurement. In both instances, however, the treatment or dis-

clusion of specifications was incidental to the explanation of some other basic matter. Now, we feel, it is time to take a more direct look at specifications, to see where they come from, what kinds there are, how they affect competition, and how they are used in defense procurement.

Before any invitation for bids or request for proposals can be issued, or any contract made, we have to define what the item or service is that we need—in other words, what is the subject matter of the procurement. The definitive or descriptive words identifying this subject matter, we call specifications. This identification of what we want, therefore, is the heart of each procurement. It is the basis upon which bids are made, proposals are offered, negotiations are conducted, and our contracts are made. In using specifications we have two purposes to achieve: First, to specify our requirements for (a) an item, material, process or service, and (b) its preservation, packaging, packing and marking; and, second, to establish criteria by which the Government will determine whether these contract requirements have been met.

At the beginning, it would be helpful to point out where our specifications come from and what kinds of specifications we have. Some mention of these preliminary matters would afford a background for some of the specific matters that will come up later on.

ORIGIN OF SPECIFICATIONS

At the head of our specification series, we have what are called Federal specifications and coordinated Military specifications. The former are coordinated and issued by the General Services Administration; the latter are approved for use by the Department of Defense. They may be explained as follows:

1. *Federal specifications*.—These cover materials, products, or services used by at least two Federal agencies (at least one of which is civilian) or new items of general application. A Federal specification, when published, supersedes all antecedent specifications for the same material, product or service, and its use is mandatory, where applicable.

2. *Coordinated Military specifications (MIL)*.—These are developed to cover materials, products, or services of primary interest to military activities. These specifications, when published, likewise supersede all antecedent specifications for the same material, product or service. Where applicable, their use is mandatory upon the military departments.

These basic specifications generally are not applicable and we are not obligated to use them when, for example, our purchase is a one-time procurement, or is not in excess of \$2,500, when we are purchasing for authorized resale, or when the purchase is of items for test or evaluation or is incident to research and development.

When it is determined, in accordance

with procedures established by the Assistant Secretary of Defense (Supply and Logistics) under the Defense Standardization Program, that neither Federal nor coordinated Military specifications meet our essential need in a given case, we use either an interim Federal specification or a limited coordinated Military specification. A brief identification of these follows:

1. An interim Federal specification is prepared and issued by a single agency. It is intended for final processing as either a new or revised Federal specification. Other agencies have the option to use it before it is completely coordinated and promulgated as a Federal specification.

2. A limited coordinated Military specification is issued by a military department to cover items in which it only has an interest or to satisfy an immediate procurement need.

Moreover, where no applicable detailed specification exists, purchase descriptions may be used. A purchase description sets forth the essential characteristics and functions of the item desired. In the case of services, it outlines to the greatest degree practicable the specific services we want the contractor to perform.

The minimum acceptable purchase description is the identification of a requirement by use of a brand name followed by the words "or equal." We use this only as a last resort when a more detailed description cannot feasibly be made available in time for the procurement at hand—and, when we can, we indicate more than one brand. The words "or equal" are not added, of course, when only a particular product will meet the essential needs of the Government, as where, for example, the item can only be procured from one source, or the item is being purchased for resale and only the particular brand meets the demands of the patrons of the retail activity.

We also get specifications from our contractors. In contracts for the development of weapons, it is the responsibility of the contractor under the performance specification to develop the necessary detailed design specifications. We will go into this in a later presentation dealing with weapon systems.

Most specifications, besides being classified on the basis of origin and coordination, are generally placed in one or the other of the two categories of specifications we wish to discuss next.

DESIGN AND PERFORMANCE SPECIFICATIONS

A design specification spells out in detail the materials to be used, their size and shape, and how the item is to be fabricated and constructed. It provides a completely defined item, capable of manufacture by any competent manufacturer in the industry.

Performance specifications, however, express our requirements in such terms as capacity, function, or operation of equipments. In this type of specification the details of design, fabrication, and internal structure are left to the option of the contractor, except that cer-

tain features or parts may specifically be required.

It should be understood, however, that rarely is either of these two extremes achieved. Practically speaking, almost never is a specification either a 100-percent design specification on one hand, or completely a performance specification on the other. Actually, nearly every specification contains some elements of both types. Our characterization of a specification as "design" or "performance" is therefore, merely effect which—ever type, design or performance, predominates.

Whatever kind of specification may be used in a procurement, including plans, drawings, or purchase descriptions, it is made available to all potential suppliers. AFPR 1-203 requires that invitations for bids and requests for proposals be accompanied, wherever practicable, by all applicable specifications, and, where impracticable, that the exact locations where they may be obtained or examined be clearly specified.

It is a requirement that all applicable specifications be made available to all interested potential sources, is an important element of our basic specification policy.

SPECIFICATION POLICY

Our specification policy is twofold. It is to state only our actual minimum need and to describe what we need so as to stimulate maximum competition.

The first precept seems self-explanatory. What it means is that the specification must describe what is required, not what may be desired. The second precept is to use the kind of specification which will generate maximum competition. For example, there are occasions when the use of a design specification will accomplish this result as, for instance, where the item was developed for the Government and can be exactly reproduced by any capable manufacturer without further development. On other occasions, the use of performance specifications may better assure competition being obtained as, for instance, where the Government requirement can be met by any one of a number of commercially designed and available products. But, as we noted earlier, there are some instances when competition is just not available as, for example, where only one source exists, or where only a particular brand name item will meet the Government's requirement.

Let us examine briefly what the circumstances are which enable either the design or the performance specification to stimulate competition in a given case.

Some products, such as specialized military electronic equipment, are not available on the commercial market. Such equipment is specially developed and designed for military use, frequently a time-consuming process. Thereafter, when we wish to buy such equipment in quantity, we use a design specification to tell competent prospective contractors precisely how the item should be made. This makes it possible to avoid duplication of development time, permits wide competition by firms which do not have

the scientific or engineering staffs to do the development, and results in the delivery to the Government of relatively standardized equipment from various suppliers.

On the other hand, many items of equipment, such as tractors, earthmoving equipment, laundry equipment, etc., are available on the commercial market. Such items are commercially designed and each manufacturer's design differs markedly from his competitor's. Each manufacturer is tooled up to make equipment to his own design and it would be very expensive to require him to construct equipment to some competitor's or to Government design. In these cases, we use performance specifications so that competition can be obtained from every firm which regularly makes a suitable commercial product. Such a specification fosters competition in these situations and avoids the favoritism which would occur if we adopted one company's design or a Government design which was more nearly like the design of one company than of others. Such a specification also avoids special tooling and production starting costs and, hence, results in lower prices to the Government.

Performance specifications frequently are also used when no suitable commercial item is available and when there is no standardized Government design. In such cases where, in the opinion of the buying activity, the design problem is well within the capabilities of a number of competent firms having design staffs, purchase will be made against a performance specification and the design details left to the contractor. In this way it is possible to get competition for items of specialized military usage, but such competition is necessarily confined to firms which are competent to design and build equipment meeting the military performance requirement.

It is also obvious that our research and development contracts are performed against what are basically performance specifications.

It is pertinent at this point to mention two sections of S. 500. The first is section 4(b), which would repeal 10 U.S.C. 2305(b) known as the Spence rider to the Small Business Act Amendments of 1955. The repeal of this provision, we consider desirable, because it overstates the use of detailed design specifications. Accordingly, the Department has supported section 4(b) of S. 500.

The other section is 4(f), which would add a new subsection (e) to 10 U.S.C. 2305 expressing a strong preference for performance specifications. In commenting on this section, the Department pointed out, as we have done here, that there are occasions when design specifications, performance specifications, or a combination of both types, best serve the interests of the Government. Therefore, the Department has recommended substitute language which would authorize the use of design specifications, performance specifications, or a combination of both, as appropriate.

ITEMS DEVELOPED BY PRIVATE INDUSTRY

Up to this point, our discussion has related to the problem of using the kind of specification which will best stimulate competition. What about the case of a new item developed by a single private firm at its own expense? What are the problems we encounter when we have need to purchase such an item?

First, there is no way of purchasing this item we need from other than the developer since we do not have the specifications and drawings for the product. What are the possibilities of buying them? When a manufacturer has developed a product at his own expense, he has the right, if he so desires, not to sell the specifications and drawings. We could, of course, negotiate for the acquisition of the specifications and drawings with an unlimited right to use such data. Normally, however, we would not do so, unless the developer's productive capacity were inadequate for our present or mobilization requirements. In many instances, a manufacturer who desired to protect his exclusive manufacturing position would insist on a price that was prohibitive, even assuming he were willing to consider selling the specifications and drawings.

There are four alternatives which we could take:

(a) To adopt a firm policy of not buying the product from a firm unless it furnishes all specifications, including a set of manufacturing drawings, and a grant to the Government of the right to use such drawings for competitive procurement, even though the item was developed by the firm at its own expense; or

(b) To develop a performance specification; or

(c) To develop a design specification; or

(d) To negotiate the purchase with the developer of the item under the authority of exception 10 for the reason that it is impracticable to obtain competition.

We do not subscribe to the first alternative. We believe that adoption of such a policy, even where the product is a standard commercial item, is unjustifiable unless reasonable compensation is paid, including the value of the drawings, reimbursement of the research and engineering involved, and the loss of profits. We might not be able to afford to pay such compensation, and even if we could, it might be uneconomical to do so because our future requirements of the product might be insufficient to amortize the cost. However, the practical results of such a policy would be that a firm would either refuse to do business with the Government on such terms or might be compelled, under the economic duress of needing immediate business, to sell its drawings at less than true value. This would create industrial ill-will and would retard industrial ingenuity and inventiveness, particularly among small or financially weak companies. The larger companies would protect themselves by refusing to contract on this basis. Many small businesses have been founded and

grown to become big business on the basis of a preferred competitive position due to patents, trade secrets, or other know-how.

The second alternative, the use of performance specifications, may be unsatisfactory. Publishing of a performance specification requires new design and development work by all firms except those which have previously developed a suitable design. Hence, the use of a performance specification, which, in itself, consumes many scarce engineering man-hours to develop, would not provide a new source where the product is urgently needed and the design time required is extensive. Thus, the use of a performance specification does not assure timely availability of an item which would meet the specification unless, as we pointed out earlier, such item is already in existence.

The third alternative, developing a design specification, is often impracticable. Such developments, to meet our known needs, are in constant progress. Our reservoir of engineers for conducting this work is, as we all know, extremely limited. Moreover, with so much development to be done, it is questionable whether this talent should be used to parallel developments which have already been successfully accomplished by industry. In addition, for military reasons, we should not be deprived of the use of items privately developed by industry pending the development of a Government design which may take a number of years to accomplish.

It might be asked whether the best way to develop a Government design specification might not be to "reverse engineer" the developer's available design. We occasionally do this on relatively simple devices where there is evidence that the prices we are being charged are unreasonable. Apart from the discouraging impact of such a practice on private research and development work and resulting private invention and innovation, reverse engineering is not easy to do. Where complicated equipment with precise tolerances, specialized treatment of materials, or critical manufacturing procedures, are involved, it is very difficult, time consuming, and sometimes, even impossible. Here again, many man-hours of scarce technical talent would be expended merely to duplicate development results which already have been achieved.

The fourth and last alternative, we believe, illustrates the normal way Congress intended the negotiation authority which it enacted in 10 U.S.C. 2304(a) (10) to be employed. As pointed out in an earlier presentation, exception 10 authorizes the negotiation of purchases and contracts "for which it is impracticable to obtain competition." The procurement of an item from its developer, where the item is needed by the Government and no commercial or military substitute presently exists, is a normal exercise of this negotiation authority.

ITEMS DEVELOPED UNDER DEFENSE CONTRACTS

There remains one further aspect of this subject to consider. This is the spe-

elaboration problem involved in items developed under our contracts. Since this will be treated in detail in a following presentation dealing with weapon systems, we merely mention it briefly at this time.

In weapon systems, where advanced technology is continually pushing the frontiers of science beyond the existing state of the art, the specifications involved obviously are of the performance type. They delineate performance goals to be achieved, namely, speed, range, payload—in sum, military effectiveness. Other important considerations involved are personnel capability to operate and maintain the weapon and the reliability of its function. Out of the efforts of the contractors and subcontractors involved will come detailed design specifications to permit manufacture of the weapon with the capabilities needed.

This concludes our discussion of specifications. It is a highly complicated subject. We have tried to simplify it, to explain our policies, and to point out some of the problems which confront us.

Moreover, we wish to say that the current Department of Defense program for establishing specifications suitable for procurement is based on the concept of broadening our sources of supply. The Defense Standardization Program under which military specifications are prepared and maintained requires as a matter of policy that the specifications define characteristics or performance requirements of items manufactured or capable of being manufactured or supplied from multiple sources. Further, as a matter of practice, wherever possible, specifications cover items capable of being manufactured with the backlog in existence in the industries at that time. Occasionally where a specification is required for a sole source item, specifications contain adequate data to permit the initiation of other manufacturing sources. Accordingly, the military specification program is designed to promote the broadest possible number of sources of items required by the DOD. We have an active program scheduled through 1964 to promote the development of these specifications and our operations are proceeding as rapidly as possible in accordance with our resources available for this purpose.

TYPES OF CONTRACTS

We would like to take up now another important subject—the types of contracts we use in defense procurement. We will discuss, as briefly as the subject matter permits, our most important contract types.

The term "type of contract" has different meanings. It is used, in one sense, to indicate differences in form and structure. Examples are letter contracts, purchase orders, and indefinite delivery type contracts. The term has also been used to indicate the end purpose of contracts, such as research, supply, construction, or ship repair. Finally, it is used to distinguish significantly different compensation arrangements as in fixed-price incentive, or cost-plus-a-fixed-fee contracts. It is in the sense of

this last meaning that we will discuss the subject of types of contracts.

The complexity of military procurement during and since World War II demanded and stimulated the development of types of contracts having greater flexibility than the standard fixed-price contracts generally in prior use. The success is evidenced by the variety of contract types now available for use. Yet, it would be easy, by thinking too much in terms of the number of new contract types developed, to overlook the importance of another factor essential to achieving good contracts. This is the skill of the contracting officer and negotiator in negotiating. While the availability of more suitable contract types greatly enhances the possibility of negotiating successful contracts, none is self-executing nor an end in itself. They must be carefully selected and negotiated. Use of a particular contract type in an individual pricing situation that it was not designed to meet would not produce the result desired. However, when the type of contract appropriate to the circumstances at hand is properly selected and skillfully negotiated, we have greater assurance of a successful contract.

Initially, we should point out that in contracts made by formal advertising, only the fixed-price contract, with or without provision for escalation, may be used. Other types of contracts cannot be made by formal advertising because, under compensation arrangements that are flexible in nature, it is impossible to say at the outset who the low bidder is within the meaning of 10 U.S.C. 2408(c). In connection with negotiated procurements, the Secretary of each military department is authorized, subject to certain exceptions, to "make any contract that he considers will promote the best interests of the United States" (10 U.S.C. 2306(a)). The one type of contract that may not be used is the cost-plus-a-percentage-of-cost contract. Subject to this prohibition, the possible combinations and variations in the types of contracts that may be used are limited only by our own imaginations.

ASPR defines and describes our types of contracts, the area of appropriate application for each, policies and considerations governing their selection, and conditions imposed on their use. We have divided our approved types of contracts into four categories:

1. Fixed-price contracts;
2. Cost-reimbursement contracts;
3. Special incentive contracts; and
4. Special-purpose contracts.

Before we start discussing these various contract types, let us run down quickly some of the factors that must be considered before an intelligent decision may be made as to the appropriate contract to be used:

1. The type and complexity of the item;
2. The urgency of the requirement;
3. The period of contract performance and the length of the production run;

4. The degree of competition present;

5. The difficulty of estimating performance costs due to such factors as the lack of firm specifications, the lack of production experience, or the instability of design;

6. The availability of comparative cost data, or lack of firm market prices or wage levels;

7. Prior experience with the contractor;

8. The extent and nature of subcontracting contemplated;

9. The assumption of business risk;

10. The technical capability and financial responsibility of the contractor; and

11. The administrative cost to both parties.

As you know, the selection of the contract type is generally a matter for negotiation with the contractor. The proper selection and negotiation of the appropriate type is of prime importance in obtaining fair and reasonable prices. Type of contract and pricing are interrelated and, therefore, are considered together in negotiation. Through consideration of the factors we referred to, we seek to achieve our primary objective in each procurement, namely, to negotiate the type of contract and price which include a reasonable amount of risk to the contractor while, at the same time, providing him with the greatest incentive for efficient and economical performance.

Our first type of contract is the—

FIRM FIXED-PRICE CONTRACT

This is the basic type of contract for defense procurement. We prefer it over all others. As noted earlier, in formally advertised procurements, the firm fixed-price contract, with or without provision for escalation, is the only type that may be used. In negotiated procurements, ASPR directs that it be used unless, under the attendant circumstances, use of another type is more appropriate.

The firm fixed-price contract, as the name implies, is an agreement by the contractor to furnish designated supplies or services at a specified price which is not subject to adjustment in the light of performance costs. In its basic form, the firm fixed-price contract carries the greatest risk and offers the greatest possibility of profit or loss of any type of contract. The contractor cannot collect more than the agreed fixed price but is entitled to receive the full amount of the fixed price, regardless of his actual performance cost. This type of contract is best suited for procurements where reasonably definite specifications are available, price competition exists, production experience is present, and costs can be predicted with reasonable certainty.

Since this type of contract provides fundamentally for a simple exchange of a specified sum of money for a specified item, it is the easiest and least costly of all contract types to administer. Examples of items for which we use this contract are standard commercial items, modified commercial items, or military

Items for which adequate information on production and cost is available. With respect to procurements in excess of \$10,000 in fiscal year 1959, 32.8 percent of our procurement dollars were obligated under firm fixed-price contracts, and accounted for 72.4 percent of the total of such procurement actions.

FIRM-PRICE CONTRACT WITH ESCALATION

Because the firm fixed-price contract provides for the future delivery of supplies or services at a price fixed at the time the contract is executed, contractors often seek to protect themselves against various future contingencies by including allowances therefor in the price. This naturally occurs, for example, where serious doubt exists as to the stability of market and labor conditions over which the contractor has no control and where these contingencies are expected to continue during an extended period of performance.

To accommodate this situation, the fixed-price contract with escalation provisions has been developed to provide for the upward and downward revision of the stated contract price upon the actual occurrence of certain specified contingencies. When such contingency areas can be identified, we find that it is good common sense for the Government to assume the risk of these contingencies occurring rather than to include an allowance for such contingencies in the price, which the contractor would retain whether or not the contingency materialized. ABPR provides, therefore, that the firm fixed-price contract shall not be used when contingency allowances in a proposed contract price are considered unreasonable. Where use of escalation is agreed upon, permissible upward price adjustments are limited by establishment of a reasonable ceiling (not to exceed 110 percent of the base price), and provisions are also included for downward adjustments of contract price in those instances where the prices or rates upon which the escalation is based fall below the base levels provided in the contract. In other words, such contracts provide for payments by the Government over and above the original fixed price upon the happening of a specified contingency (such as the imposition of additional taxes, or an increase in a labor or material index). Conversely, they also provide for a reduction of the contract price in the event that the actual occurrence of the contingency reduces the cost of performing the contract. In this way, we pay for only what does happen, not what may happen.

An example where this type of contract is frequently used is the procurement of steel or coal, the prices of which are so directly affected by industry-wide labor rates. With respect to procurements which exceeded \$10,000 in fiscal year 1959, 8.3 percent of our procurement dollars were obligated under fixed-price contracts with escalation and accounted for 2.3 percent of the total of such procurement actions.

The remainder of the contract types which we will discuss, as noted earlier,

cannot be used in formally advertised procurements.

FIRM-PRICE CONTRACT PROVIDING FOR REDETERMINATION OF PRICE

It sometimes happens that the lowest fixed price which the prospective contractor is willing to accept is greater than the contracting officer is willing to obligate the Government to pay. For example, in the case of a comparatively new item, the uncertainties of production costs may be such that neither the Government nor the contractor can be assured that an initially negotiated price would remain valid through the life of the contract. Negotiation may bring out the further fact, however, that during performance a point will be reached when sufficient cost experience will have been attained so that a reasonable fixed price can then be negotiated. What is needed here, therefore, is a form of contract whereby the parties, in the light of the actual cost experience gained during partial production of the contract items, can take a second look at the reasonableness of the price initially negotiated. To meet this situation, the fixed-price contract providing for redetermination of price was developed.

Under the fixed-price redetermination type contract, the parties negotiate an initial fixed price based upon the best cost data or cost estimates they can develop. They then agree that at some specified point in performance under the contract—usually expressed either in terms of time or in percentage of performance—they will adjust the initially negotiated price based upon the experience gained in performance up to that point. It may be agreed that such price adjustments may be made upward with a ceiling or downward, or downward only; furthermore, it may be agreed that the adjusted price may apply to past and future performance or to future performance only. On occasion, another type clause providing for retroactive application of a price redetermined after completion of the contract, may be used, but only when approved at high levels in each of the military departments. Such a contract may be used only when the amount involved is relatively small or the time for performance is relatively short, and, but for those special circumstances, a cost-reimbursement type contract would ordinarily be used.

The basis upon which the price redetermination is made depends, of course, upon the exact terms of the redetermination clause employed. In general, the contractor is required, after the redetermination point has been reached, to submit to the contracting officer a breakdown of costs actually incurred and an estimate of costs expected to be incurred in the performance of the remainder of the contract, using for this purpose a prescribed Department of Defense form. On the basis of this and other information, such as a Government audit, which the contracting officer may request, or which may otherwise be available to him, the contract price is redetermined by agreement of both parties. It is the intent of this type of contract that the

redetermined prices be fair and reasonable under all the circumstances both to the contractor and to the Government.

In the negotiation of fair and reasonable redetermined prices, the contracting officer may take into account, as factors determining a reasonable profit allowance, any unwarranted delay on the part of the contractor in submitting his breakdown of costs incurred and his estimate of costs to be incurred at the time required by the contract, as well as the efficiency, economy, and ingenuity with which the contractor has performed the contract to the redetermination point. It is particularly important in this type of contract that the contractor's skill and economy of performance be accorded full consideration in determining the ultimate allowance for profit. In order thereby to provide an incentive to the contractor to reduce the cost of performance.

Price redeterminable contracts are suitable for use in varying degrees where—

1. adequate estimates of quantities of material and labor are not initially available;
2. specifications adequate for a firm fixed-price contract are not initially available;
3. sound initial estimates of total cost of performance cannot be made;
4. effective competition or other reasonable justification of price is not available; or
5. the use of price redetermination would otherwise materially assist in effecting fair and reasonable pricing.

We have placed definite limitations upon the use of redeterminable type contracts, and our contracting officers have been directed not to use them unless—

1. It has been determined through negotiation that the particular price redetermination contract fulfills more completely than any other type of contract the requirements established by the conditions surrounding the procurement;
2. there is, at the outset, sufficient pricing information available to negotiate a prospective fixed or target price;
3. the initial price is substantially free of contingency allowances;
4. a firm fixed-price can be established at a point substantially in advance of contract completion (except as to the redetermination-after-completion type contract, which, as mentioned earlier, requires special approval);
5. reasonable assurance exists that contract price redetermination can be accomplished on a timely basis;
6. the contractor's accounting system is adequate for auditing for price redetermination purposes; and
7. the cost of administration is not prohibitive.

With respect to procurements in excess of \$10,000 in fiscal year 1959, 4.7 percent of our procurement dollars were obligated under fixed-price redeter-

minable type contracts, and accounted for 3.6 percent of the total of such procurement actions.

FIXED-PRICE INCENTIVE CONTRACT

Another type of flexible-pricing contract is the fixed-price incentive contract. This type of contract provides for the initial negotiation of a target cost, a target profit, a ceiling price, and a final profit formula which allows the contractor to participate (usually in the range of 10 percent to 20 percent) in any savings resulting from his bettering of the target cost. Its objective is to give the contractor a built-in incentive to reduce his cost of performance since his profit is increased thereby.

The fixed-price incentive contract permits the contractor to make more dollars of profit if the actual cost of contract performance is less than the negotiated cost designated as the target. Conversely, it provides that the contractor will make fewer dollars of profit if actual costs are greater than the target. To this extent, such incentive contracts are similar in effect to the firm fixed-price contract. The difference, however, is that by the terms negotiated and written into the incentive contract, the Government and the contractor share in the difference between the target and actual costs, whereas, in the firm fixed-price contract the Government does not share in any savings the contractor may effect.

In order to explain how this type of contract works, let us use an example (exhibit 9), where, to simplify the explanation, we will use figures which would be much less than normally is the case. This type contract requires first, that a realistic estimate be made of the cost of performing the contract. In our example, this is \$100,000. To this amount (usually called "the firm target cost") a reasonable allowance for profit (known as the target profit) is added. Here it is \$8,500. The sum of these amounts, \$108,500, constitutes the "base" or "target" price, or, in other words, the price which the Government estimates would be fair and reasonable.

A ceiling price which the final contract price cannot exceed is next determined. In our example this is \$120,000. In addition, a profit formula, shown here as 80 percent Government/20 percent contractor, is agreed to, and a profit ceiling of \$18,000 is established.

If the final cost of performing the contract is exactly equal to the estimated target cost of \$100,000, the contractor receives the target profit of \$8,500. If the final cost is less than the target cost, the contractor shares in the cost savings on the basis of the previously negotiated percentages of 80 percent/20 percent up to a maximum possible profit of \$18,000; the contractor thereby benefits by receiving a larger profit, while the Government benefits by paying a lower total contract price. If the final cost of performing the contract is greater than the target cost of \$100,000, the contractor's profit is reduced by the previously negotiated percentages. If the final cost is equal to the ceiling price of \$120,000 the contractor makes no profit;

and if it exceeds the ceiling price, he must absorb the excess.

Obviously, care must be exercised to keep the targets and ceiling price as low as possible if the Government is to enjoy the advantages inherent in the incentive contract. For this reason, the incentive contract is used only where there is sufficient previous cost experience to make it possible to determine a realistic base or target price. In addition, the contractor's accounting system must be adequate for price revision purposes and must permit satisfactory application of the price adjustment formula. Further, a sufficiently long period of performance is required in order to permit achievement of substantial cost reductions.

Also shown in exhibit 9 are two situations: in one instance, the final cost is \$92,000, giving the contractor a \$10,500 profit and the Government a \$102,100 profit; in the other example, the final cost is \$104,000 resulting in the contractor obtaining a \$7,700 profit and the Government a \$111,700 profit.

We must remember that under our example, the ceiling cost to the Government was \$120,000. Therefore, to emphasize what we said before, if costs ran beyond this point, not only would the contractor not realize any profit, but he would also incur a loss. Furthermore, as the profit ceiling was established at \$18,000, the contractor would share in cost savings only until the cost was reduced to \$77,500, the point at which, under our formula, his profit would be \$18,000. Any savings below this point would accrue to the Government.

The question is often asked, "Doesn't the fact that increased profit depends on producing for less than the target cost tend to cause prospective contractors to inflate their estimates?" The answer, of course, is yes, but no more so under incentive type contracts than under any other. Our contracting officers must always analyze the estimated costs and proposed prices to learn all pertinent facts and negotiate upon the basis of what it should cost the prospective contractor to perform if it operated with reasonable economy and efficiency. Our purpose in this type of contract is to have the contractor spend money as if he were in a market dominated by vigorous price competition, to make all decisions in the light of a critical analysis of probable costs, and to keep false starts and changes to a minimum. The possibility of greater profit is an incentive to the contractor to produce for less than he believed possible and for less than was reasonably first estimated both by him and the Government.

Title 10, United States Code, section 2306(c) presently provides that no incentive contract may be made unless it is first determined that (a) the use of such type of contract is likely to be less costly than other types of contracts, or (b) that it is impractical to secure supplies or services of the kind or quality required without the use of such type of contract. Further, our contracting officers are required by law to make such determinations in writing. Moreover, a copy of the determination is sent to the

General Accounting Office with a copy of the contract.

In this connection, section 5(b) of S. 500 would eliminate the necessity of making this determination before any incentive contract, whether of the fixed-price or cost-reimbursement type, may be made. The Department favors this provision as relieving our contracting officers of an unnecessary administrative detail.

For procurements in excess of \$10,000 in fiscal year 1959, 18.3 percent of our dollars were obligated under fixed-price incentive contracts and accounted for 5.4 percent of the total of such procurement actions.

COST-REIMBURSEMENT TYPE CONTRACTS

Our use of cost-reimbursement type contracts, particularly the one we call the cost-plus-a-fixed-fee contract, has been increasing year by year. Since fiscal year 1952, when only 4.9 percent of our procurement actions in excess of \$10,000 were of the cost-reimbursement type contract, we have seen this percentage grow until in fiscal year 1959, 15.4 percent of such procurement actions were of this type of contract. In dollars, the same is true. In fiscal year 1953, only 12.7 percent of our defense procurement dollars were obligated by cost-reimbursement type contracts; in fiscal year 1959, 40.9 percent of the dollars were so obligated.

This trend is not one of choice, but of necessity. We are all aware of the rapid technological evolution which has taken, and is still taking, place in advanced aircraft, missile, and electronics. This evolution—one might almost say "revolution"—originates in science and results from ever-increasing emphasis upon research and development, an emphasis which treats research and development both as an end objective for which a contract is made and as a cooperative under a production contract. Where we are demanding tomorrow what was unheard of yesterday and where the passage between the two is filled with many unknowns, the costs of performance cannot be estimated with reasonable accuracy. The various fixed-price types of contracts cannot meet our needs in this situation. Thus, in this period of expanded research and development effort, the increased use of cost-reimbursement-type contracts is both obvious and inevitable.

Title 10, United States Code, section 2306(c), which was referred to earlier, also requires a determination of likely lesser costs or of impracticability of other types of contracts before any cost-reimbursement type contract may be made. As in connection with fixed-price incentive contracts, our contracting officers are also required to make these determinations in writing and to send a copy to the General Accounting Office together with a copy of the contract. Section 5(b) of S. 500 would eliminate the necessity for making such determinations before entering into cost-reimbursement type contracts for experimental, developmental, or research work. Since, as pointed out previously, the use of cost-reimbursement-type contracts

for experimental, developmental, or research work is normally absolutely necessary, the Department of Defense favors enactment of section 5(b) of S. 500. If enacted, it would eliminate considerable paperwork which now accomplishes no real purpose.

One more point before we proceed to discuss our particular types of cost-reimbursement contracts. It is essential that we direct attention to our standards and safeguards for determining the allowability and reasonableness of costs. To assist in administering our cost-reimbursement contracts, we have recently issued a revised and greatly expanded set of contract cost principles. These principles will be incorporated by reference in all cost-reimbursement contracts as the contractual basis for cost allowance and payment. All cost-reimbursement contracts are subjected to audit by our auditors and final payments are made on the basis of such audits. It is equally essential, of course, that, before any cost-reimbursement-type contract is made, the Government examine and determine that the cost-accounting system of the proposed contractor is adequate for auditing purposes. Our cost principles form the background for these audits and provide guidance for the determination of questions concerning the allowability and reasonableness of cost.

The subject of the reasonableness of costs is most important. Generally, our cost principles provide that a cost is unreasonable, and hence, unallowable, if it exceeds that which would be incurred by an ordinarily prudent firm in the conduct of a competitive business. We take particular care, however, in scrutinizing the reasonableness of specific costs of contractors in industries, or who are performing contracts in areas, where effective competitive restraints are lacking. One of our tests here is what a prudent businessman would do in the circumstances, considering his responsibilities to the owners of the business, his customers, the Government and the public at large. Thus, it may be seen that we attempt to follow industry or area patterns rather than to lead them. Inasmuch as all cost-reimbursement-type contracts represented, in fiscal year 1959, only about 2 percent of the gross national product, we do not feel that they have any substantial inflationary effect upon the economy.

Let us now take a look at the specific types of cost-reimbursement contracts which we use.

COST CONTRACT

The cost contract is a cost-reimbursement-type contract under which the contractor receives no fee. Under this type of contract, the Government agrees to reimburse the contractor for allowable costs of performance as governed by ASPR, section XV, and specific terms of the contract. It is used principally for research and development work with educational institutions and other non-profit institutions. For procurements over \$10,000 during fiscal year 1959, 3 percent of our procurement dollars were

obligated by such contracts, accounting for 3.6 percent of such procurement dollars. These percentage statistics also include the relatively little used cost-sharing type contract which will now be discussed.

COST-SHARING CONTRACT

The cost-sharing contract is one under which the contractor receives no fee and is reimbursed only for an agreed portion of his allowable costs, as governed by ASPR, section XV. The cost-sharing type of contract recognizes that the contractor sometimes benefits substantially (apart from profit) by the performance of a Government contract. This is particularly true in the field of development work where the results of the work performed under a Government contract may have profitable commercial application. Where the prospect of commercial application can be foreseen at the time of entering into the contract, contracts are negotiated which provide that the Government will reimburse the contractor for only a specified percentage of its costs. The unreimbursed portion of the cost of performance represents the contractor's contribution to what is in effect a joint enterprise.

COST-PLUS-A-FIXED-FEE CONTRACT

The cost-plus-a-fixed-fee contract is a cost reimbursement type of contract which provides for the payment of a fixed fee to the contractor. In addition, the contractor is reimbursed for the allowable cost of performing the contract as governed by ASPR, section XV, and the terms of the contract.

Our present procurement law (10 U.S.C. 2306(d)) sets the fee for performing a cost-plus-a-fixed-fee contract for experimental, developmental, or research work to not more than 15 percent of the estimated cost of the contract, not including the fee. For architectural or engineering services for a public work or utility, the fee is limited to not more than 8 percent of the estimated cost of that work or project, not including the fee. The fee for performing any other cost-plus-a-fixed-fee contract may not be more than 10 percent of the estimated cost of the contract, not including the fee. Experience has revealed that, for the most part, cost-plus-a-fixed-fee contracts can be negotiated with fixed fees below the maximum established by law. ASPR, therefore, requires Secretarial approval for any fixed fee of any cost type contract for experimental, developmental, or research work in excess of 10 percent of the estimated costs, exclusive of fee, and for any other type of cost-plus-a-fixed-fee contract, other than for architectural or engineering services, in excess of 7 percent.

Because the cost-plus-a-fixed-fee contract obligates the Government to reimburse the contractor for the allowable cost of performing the contract without regard to the estimated cost, it has been our practice to specify a maximum amount beyond which the Government will not be obligated to reimburse the contractor. The maximum may be more or less than, or equal to, the estimated

cost. The contractor agrees to use his best efforts to complete the contract within the maximum limitation, but has no obligation for further performance when, despite his best efforts, the contract is not fully performed at the time the maximum has been reached, unless the contracting officer increases the maximum.

The cost-plus-a-fixed-fee contract avoids the vice of the cost-plus-a-percentage-of-cost contract in that the contractor does not benefit by an increase in the costs of performing the contract. Irrespective of whether his actual costs are greater or less than the estimated cost, the contractor receives the predetermined fixed fee. Of course, if the scope of the contract work is increased or decreased, appropriate increases or decreases both in the estimated cost and the fixed fee are negotiated.

This type of contract, obviously, provides minimum incentive for cost reductions. Such incentive as it contains is the result of (1) the urge to maximize the relation of fee to ultimate actual cost; (2) the need to use labor and facilities effectively on cost-plus-a-fixed-fee business so that more resources can be devoted to other contracts; and (3) the desire to demonstrate efficient and economical operations as a means of encouraging additional business.

Because of the lack of incentive, the cost-plus-a-fixed-fee contract is the contract type we least prefer. We use it—as stated earlier—but sparingly, but prudently. This least favored type of contract has been used, during the past fiscal year, in contracts obligating more dollars than obligated by any of the various fixed-price types of contracts. This reflects and emphasizes the fact that, regardless of preference, contract usage is dictated by the procurement situation. The fact that the trend in dollars obligated by cost-plus-a-fixed-fee contracts has been constantly increasing clearly evidences the trend in defense contracting, where development of new weapons predominates and buys of production quantities of weapons for inventory become less common.

It should be noted also that the objections to the cost-plus-a-fixed-fee type of contract are not entirely on the Government's side. In a number of respects, this type of contract, as well as the other types of cost-reimbursement contracts, are not attractive to the contractor. The fact that the Government is directly reimbursing costs necessitates governmental inspection and control to an extent which many contractors consider burdensome. Furthermore, the contractor has no assurance that all of the costs which he actually incurs or claims to be allocable to the performance of the contract will be reimbursed, since only those costs which are accepted in accordance with the applicable cost principles set forth in ASPR, section XV, are reimbursed.

For our procurement action over \$10,000 during fiscal year 1959, 34.3 percent of our procurement dollars were obligated under cost-plus-a-fixed-fee

contracts and amounted to 0.3 percent of the total of such awards.

Cost-Plus-Incentive Fee Contract

We indicated earlier that the weakness of the cost-plus-fixed-fee contract is its comparative lack of incentive to the contractor to reduce his cost of performing the contract. To counter this weakness, the cost-plus-incentive-fee contract was developed. It assumes the contractor has a minimum fixed fee but permits the fee to be increased within specified limits if the contractor performs the contract for less than the estimated cost.

Under this type of contract, the Government and the contractor agree at the time of negotiation of the contract upon the target cost of performance. The target fee is then determined, as in the case of the cost-plus-fixed-fee contract, in relation to the target cost. Also established are minimum and maximum fees and finally, a fee adjustment formula similar to what is used in a fixed-fee incentive contract.

After performance of a contract, the fee payable to the contractor is determined in accordance with the formula. The formula provides, within limits, for an increase in fee above target fee when the total allowable costs are less than target costs. Conversely, it provides for decrease in the fee below the target fee when the total allowable costs exceed the target costs. Thus we built in incentive to the contractor to increase the standard of performance.

We use the incentive-fee contract where a cost-reimbursement type contract is necessary and where there is a probability that its use will result in lower costs to the Government than other forms of cost-reimbursement type contracts through cost reduction incentive to the contractor. Target and maximum fees are subject to the same administrative percentage limitations previously mentioned under our discussion of cost-plus-fixed-fee contracts.

As an example of usage, this type of contract has been utilized in our aircraft and missile programs.

For new procurements over \$10,000 during fiscal year 1959, 3.9 percent of our procurement dollars were obligated under cost-plus-incentive-fee contracts, amounting to 0.3 percent of the total of such awards.

Special-Incentive Contracts

In addition to the various types of contracts previously mentioned, we have developed other means of increasing contractor incentive. ABPR, under date of April 20, 1958, authorized the use of two new types of special-incentive contracts.

The first of these is the performance-incentive type contract. Its purpose is to incorporate an incentive to the contractor to surpass stated goals of performance by providing for increases in the fee or profit to the extent that such goals are surpassed and for decreases to the extent that such targets are not met. This type of contract incorporates, not only the pricing formulas of the fixed-price incentive or cost-plus-incentive-fee types of contracts, but also has the

objective of better performance in addition to a reduction in price. "Performance" refers not only to the performance of the article being procured, but to the performance of the contractor as well. It includes timeliness of delivery, capability and availability of the product, ease and simplicity of operation, economy of maintenance, etc. Performance which is the minimum which the Government will accept is mandatory under the terms of the contract and is not subject to the incentive feature but must be accomplished within the established base price limitation. Thus, the incentive feature is applied to defined performance rather than mandated performance. Its performance goals reflect that performance requirements. For example, performance goals might relate to the speed of an aircraft or ability thereof of an engine, maneuverability of a vehicle, fuel economy, etc.

This type of contract is most suitable for use in procurements of complex military weapons where there are either substantial development goals or uncertainties for improved performance which are of great importance to the Government. The performance-incentive type of contract poses complex problems in contract administration and requires thorough detailed evaluation of all the factors involved by the contracting officer and his team of specialists. This type of incentive contract is used only upon approval of the procurement headquarters of the individual military service.

Since the authorization of this type contract is so new, we do not have any meaningful statistical information concerning its use. It has been used, however, in aircraft procurement and, just recently, in one of our missile programs.

The second special incentive type contract with which we are finding success, especially in shipbuilding, is the concept of value-engineering incentives. This type of incentive is suitable primarily where the items being procured are covered by firm specifications.

Value-engineering incentives are designed to encourage the contractor to maintain a staff devoting time and effort to value engineering studies to reduce costs under the contract. In return for this effort, the contractor receives a stated percentage of the resultant savings. A value-engineering study is an intensive appraisal of all the elements of the design, manufacture or construction, inspection, installation and maintenance of an item and its components, including the applicable specifications and operational requirements, in order to achieve necessary performance, maintainability, and reliability at minimum cost. The purpose of value engineering is to make certain that every element of cost (e.g., labor, material, and supplies) contribute proportionately to the function of the item.

Where a change recommended by a contractor's value engineering study is adopted, a change order is issued under the "changes" clause of the contract, together with a reduction in the contract price corresponding to the agreed percentage of the cost reduction. The con-

tractor normally shares, by increased profits, in the amount of cost saving. On the other hand, the Government is not required by the terms of the contract to accept any recommendations made by the contractor after a value engineering study.

Since the ABPR authorization of this type of incentive arrangement is also recent, we do not have any meaningful statistics concerning its use. We do know, however, that for every dollar the threat of savings has spent with contractor under such value engineering arrangements, it has saved \$10.

Fixed-Price Contracts

Up to this point, we have discussed fixed-price contracts, cost-reimbursement contracts, and special-incentive contracts. The last category of contracts types which we wish to mention is what may best be called special-purpose contracts. These contract types are not utilized to any great extent but they should be included in order to complete the picture.

Time and Materials Contract

The time and materials type of contract provides for the procurement of supplies or services on the basis of payment for direct labor hours at specified fixed hourly rates (which rates include direct and indirect labor overhead, and profit) and materials at cost. Material handling costs may be included in the charge for "material at cost," provided they are clearly excluded from any factor of the charge computed against direct labor hours. Under this type of contract, a price ceiling is established which the contractor may not exceed, except at his own risk.

The time and materials contract is used only in those situations where it is not possible at the time of placing the contract to estimate the extent or duration of the work or to anticipate costs with any substantial accuracy. Moreover, its use is restricted, as its disadvantage is obvious; since it provides for payment of a fixed price per applicable unit of time, it is evident that, unless the rate is insufficient to cover the contractor's costs, the total amount of profit under the contract is increased proportionately as the number of hours are increased. For this reason, the time and materials contract is not among our preferred types of contracts and is used only after the contracting officer has determined that it most suitably serves the requirement.

It is essential that this type of contract be used only where provision is made for adequate controls, including appropriate surveillance by Government personnel during performance, to give reasonable assurance that inefficient or wasteful methods are not being used.

At times this type of contract is necessary for repair, maintenance, or overhaul work or work to be performed in emergency situations. However, with respect to procurements which exceeded \$10,000 in fiscal year 1959, only 0.3 percent of procurement dollars were obligated under time and materials contracts. This ac-

counted for 68 percent of the total of such procurement actions

LABOR-HOUR CONTRACTS

The labor-hour type of contract is similar to the time-and-materials type contract. It differs only because the contractor is not required to furnish any materials.

The significance of this type of contract is the same as for the time-and-materials type of contract. The disadvantages is also the same, and for this reason the labor-hour contract is used very infrequently.

For procurements exceeding \$10,000 in fiscal year 1959, only 0.1 percent of our procurement dollars were obligated by labor-hour contracts, which accounted for 0.8 percent of the total of such procurement actions.

This concludes our discussion of the types of contracts used in defense procurement. It should be pointed out, however, that our responsibility in selecting the most appropriate type of contract does not end with the prime contractor. Under date of October 1, 1959, ARMT was revised to include a more comprehensive treatment concerning our subcontracting policies and procedures. This subject will be covered in the closing presentation.

REMARKS

Target cost	None	Fixed-price incentive	\$100,000
Target profit			4,000
Target price			104,000
Colling price, 100 percent of target			
Maximum liability of Government			100,000
Formula: 80 percent Government/20 percent contractor			
Final colling, 100 percent of target			
Final colling, 100 percent of target			
Maximum profit company can realize			10,000
Assumes:			

	A	B
Final price	\$94,000	\$104,000
Target price	100,000	100,000
Colling price (80 percent of target)	80,000	80,000
Final price	102,000	111,000

1 Loss share (20 percent of \$4,000).

RESEARCH AND DEVELOPMENT

Never before in military history has research and development attained the importance it has today. It is the foundation for all progress in modern weaponry. The continued ability of our military forces to defend our way of life depends greatly on ever-increasing knowledge and advancement in every field of science and technology.

While money perhaps is not too valid a yardstick of measurement, it does evidence the emphasis we have placed on research and development. In fiscal year 1959, our prime contract awards for research, development, test and evaluation work approximated \$8.2 billion.

What is research? What is development? In this presentation, which will be brief, we will explain what research and development work is, where we get it and what we get from it—up to the

point where a new weapon system is proved feasible. The presentation on weapon systems will cover the telescoping of the entire research, development, test, evaluation, and production effort in order to save valuable lead time.

TYPES OF RESEARCH

We categorize research as basic or applied. Basic research is directed toward an increase of knowledge in science. The primary aim of the investigator is a fuller knowledge or understanding of the subject under study. Applied research is an effort to determine and expand the possibilities of new scientific discoveries or improvements in technology, materials, processes, methods, devices, and techniques. In other words, it attempts to advance the state of the art.

Development, on the other hand, is the application of engineering, technical and scientific skills, as well as plant and facilities, to the design and development, for example, of a particular equipment or weapon. This is done with specific performance goals in mind and within limitations such as size and weight. The result of development is hardware which would be tested, evaluated, and, if suitable, may be produced for our inventory of combat weapons.

This, research and development is a continuous and cyclical process. It progresses by degrees and leads upon itself as it proceeds, engendering new knowledge and new applications of this knowledge as it advances. It is also apparent that where one segment of the process ends and the other begins is never too clear; each feeds into each other as in the color spectrum itself.

SOURCES

Although we have "in-house" research and development capability, it is inadequate for the magnitude of the research and development effort required today. It is in the interest both of the national defense and of the national economy that research and development sources be expanded, including greater participation by competent small business firms. Thus, we require unified effort by technical personnel, contracting officers, and small business specialists, to seek out new sources with competence in this area and to utilize their capabilities to the maximum practicable extent in our research and development program.

Our sources for research and development work are colleges, universities, and other nonprofit organizations, and industry. The interest of industry tends more to applied research and development than to basic research. The reason, of course, lies in the fact that this kind of research and development usually results in a product for which profitable markets may be found. Since colleges, universities, and other nonprofit organizations have little or no interest in commercial possibilities, they are prime sources for basic research work.

It is in the field of research and development that "unsolicited" proposals are most frequently received. These are ideas or studies in science which influ-

ence and educational institutions have originated and which, since they desire to pursue them further, they present to the military departments for possible financial support. Whether such an unsolicited proposal is potentially valuable to us, we may ascertain the firm or institution in the further research or development work necessary.

AWARD OF RESEARCH AND DEVELOPMENT WORK

It is our policy that research and development contracts should be awarded to those organizations, including educational institutions, which have the highest competence in the specific branch of science or technology required for successful conduct of the work involved. Award of such contracts, therefore, is made primarily upon the comparative technical abilities of the proposed contractors rather than on comparison of estimates of cost. The reason is that in cost-reimbursement-type contracts, which, as we pointed out in an earlier presentation, must usually be used for research and development work, advanced estimates of cost are not always valid indicators of what final actual costs will be. This policy of awarding to the most technically competent source results, we believe, both in the most expeditious accomplishment of vital research and development, since the most advanced firm does not have to duplicate work already done, and in lower overall cost to the Government.

In determining which prospective contractor possesses the highest technical competence, the following factors are carefully considered:

- (1) Availability of experienced scientific and technical personnel;
 - (2) Availability, from any source, of suitable test or other facilities;
 - (3) Experience or pertinent novel ideas in the specific branch of science or technology involved in the proposed contract; and
 - (4) Willingness to devote those resources to the proposed work with appropriate diligence.
- In a number of research and development contracts awarded by the military departments, there is no substantial question as to the choice of the contractor. Examples of such contracts would be those which are continuations of work already started under earlier contracts or those which involve the development of unsolicited proposals, noted earlier. Frequently, however, when a new research or development contract or program is undertaken, there is initially no clear indication of the source which should perform the work. The determination of the most technically competent source is primarily the responsibility of the cognizant technical personnel in the military departments. Thus, the contracting officer places substantial reliance upon the suggestions of scientific and technical personnel in awarding research and development contracts.
- There are no special difficulties in contracting with educational institutions. The specifications we use are, naturally, of the performance type, the work state-

ment being general. We try to steer a median course in our statement of the work to be performed, insuring that it is sufficiently specific so as to give direction to the progress of the work but not so narrow as to unduly restrict the contractor's research or development effort. The institution is reimbursed costs on the basis of the principles stated in Section XV: Contract Cost Principles and Procedures, Part 3: Research Contracts With Educational Institutions, of the Armed Services Procurement Regulation, Part 3 in the Department of Defense Implementation of Circular A-21 issued by the Bureau of the Budget which has Government-wide application. Thus, the same principles of cost reimbursement should apply regardless of which Government agency is involved.

Since 1952, under 10 U.S.C. 2352, it has been possible to make research and development contracts for a period up to 5 years. Our recognition of the advantages of this congressional help may be seen in the following policy statement (DOD Directive 3210.1):

"Research depends for its success upon continuity. Sustained financial support at even a modest level is likely to produce greater progress at less cost than huge expenditures in periods of emergency. Basic research programs are seldom successful in the face of marked and unpredictable fluctuations in the level of their support."

An important byproduct of this authority is that it permits colleges and universities to make longer commitments to graduate students to work as research assistants. Graduate students make substantial contributions to basic research primarily because they are not influenced by past experience or the confining influence of set ideas. Their fresh and enthusiastic approach, combined with the guidance they receive from university scientists, contribute immeasurably to our much needed reservoir of scientific knowledge.

GRANTS

Mention should be made of Public Law 85-234, entitled "An act to authorize expenditure of funds for support of scientific research and for other purposes." The new law permits us to sponsor grants for basic research with universities. Presently, we have little experience with such grants since instructions implementing the new statutory authority have only recently been published. But, by comparison with the many clauses and conditions of a Government contract, a grant contains very few conditions—usually only those outlining the type of research to be conducted, permitting revocation of the grant, providing for the return of unused funds, and for certain patent rights considerations. This gives us discretionary authority to vest little to personal property in the contractor, thereby relieving the university of the burdensome details of accounting for it. Thus, the features of a grant are the absence of administrative controls by the grantor and of the necessity for the grantee to justify his expenditures or to

account for the supplies and equipment purchased under the grant. We expect the use of grants to effect savings because of the substantial reduction in the cost of administering them as opposed to the cost of administering contracts.

INDemnIFICATION

As the tempo of scientific exploration increased, particularly in the area of atomic energy, a need for Government indemnification of contractors against nuclear and other extrahazardous risks developed. Insurance companies were hesitant, naturally, about entering into such fields as research in nuclear physics or radioactivity or the development of nuclear power, because these risks are extremely hazardous and also, because of the absence of reliable statistics upon which actuarial calculations could be based. Although some insurance was written, as in the development of nuclear-powered submarines, coverage was limited and other restrictions were imposed. Congress recognized the problem and, in 1952, enacted authority, now codified in 10 U.S.C. 2354, which permits us to indemnify research and development contractors for the payment of claims incidental to defined extrahazardous tasks.

In this connection, additional statutory authority is needed to permit transition from the research and development phases of certain programs to those of production, maintenance, repair, or actual operations, without diminution of the right to grant indemnification to contractors. For example, when a nuclear-powered submarine has been developed and accepted by the Navy and is later returned to the contractor's shipyard under a new contract for maintenance and repair work, the same need for indemnification exists even though a research and development contract is no longer involved. Similarly the same would be true in connection with the construction of the second and subsequent vessels identical to a prototype previously developed and accepted.

To fill this void in our indemnification authority and to respond to the current need of the military departments, the Department has sponsored new legislation to authorize the military departments to indemnify contractors against unusually hazardous risks under any type of contract. We believe, therefore, that S. 2110 and H.R. 4103, 86th Congress, 1st session (1959), are necessary, desirable, and should be enacted. These bills, which are identical, contain a limitation of 10 years to enable Congress to review the program after experience has been gained under it.

FEASIBILITY STUDIES

Development of our more complex weapons is usually preceded by special studies conducted "in-house" or under contract. These, we call "feasibility" studies. They are theoretical studies to (1) determine the practicability of combining the latest scientific advances and theories for the development of future systems, subsystems, components, and techniques in new operational environ-

ments, or (2) to explore the possibility of achieving the same goal with existing systems, subsystems, components, and techniques.

Decisions to develop many current weapon systems have been made as the result of feasibility studies.

For example, shortly after the outbreak of the Korean conflict, an analysis of the air defense system then existing in our country indicated that we were vulnerable to airborne attack. The drastic implications of a mass attack by bombers carrying atomic bombs provided the impetus for an immediate study to determine whether or not it was feasible to employ electronic computers to replace the majority of the functions then being performed manually within air defense control centers.

The results of this study are now well known. From it grew the Semi-automatic Ground Environment (SAGE) system. This equipment is capable of automatically guiding a missile many miles out to sea where it can intercept and "kill" an enemy bomber.

Thus, feasibility studies assure that we do not contract for the impossible. Additionally, they enhance the probability that, when development is undertaken, expenditures in a designated area of interest will result in reasonable assurance of successful completion at reasonable cost.

This general description of research and development will prove helpful, we believe, in considering the subject of weapon systems, which will be discussed next. While we have separated research and development and weapon systems for the purposes of our discussion here, they are, of course, very much interrelated. In concluding, we wish to repeat what was said in our discussion of exception 11, that enactment of section 8 of B. 800, allowing Secretarial delegation of the authority to make determinations and decisions that particular contracts involve research and development work, would help to improve our procurement procedure in this very important area.

WEAPON SYSTEMS

Our purpose in this presentation will be to explain what the weapon system concept is, where it came from, how we use it, and why we need it. In doing so, we may all come to appreciate more fully both the simplicity and logic of its basic concept and the complexities involved in its execution.

INTRODUCTION

There is nothing new about weapon systems except the term itself. A weapon system—as contrasted with a weapon—is simply an entity consisting of an instrument of combat, such as an aircraft or missile, together with all related equipment and supporting facilities required to bring the instrument upon its target or to the place where it performs the function for which it was built.

The requirement for a new weapon system comes into being as the result of constant assessment of the capabilities of a potential enemy and of our

technological advances. A requirement having been established and feasibility determined, what is our objective?

It is to procure the development, production, and delivery of the weapon system into inventory in the shortest possible time and at minimum cost. Since rapid technological advances tend to make complex weapons obsolete even before they can be produced, we must telescope the overall development and production task but remain sufficiently flexible in our effort so as to take advantage of advances in the state of the art, with minimum impact on both time and cost. What we must do is start from scratch and research, design, develop, test, produce, and deliver a weapon in 2, 4, or 8 years, which, in normal circumstances would take perhaps twice as many years to accomplish.

Design, development, production, and operation of a weapon system involve several functions normally managed by separate elements of the military departments. For example, funding is a comptroller function; procurement is accomplished by purchasing offices; storage, distribution, and maintenance, as well as training of personnel, are separate functions. Thus, the problem of coordinating all these responsibilities requires a new management approach. This we call the weapon system concept.

There is no single method or formula for Government management which fits all weapon systems. Thus, internal management may vary from a specially devised manager of all functions and commodities, as in a complex system like Polaris, to retention of normal managers for many of the functions or commodities involved for a relatively simple system. Whichever technique of internal management is decided upon, however, the responsibility for exercising total management of the weapon system remains with the military department.

The particular management arrangement to be selected depends on such factors as the nature of the item, the state of the art, the degree of urgency, and in-house and industrial capability. The same factors are also pertinent to the next question, how best to carry out this project. Is there in-house capability to carry the design and development of the new weapon system through prototype manufacturing? Should responsibility for design and development of the entire system be given to one contractor? Should subsystems and major components be bought directly from the design and development contractor, or bought from other sources and Government furnished? Would it be better to contract on an associate-contractor basis, as we often do in missiles?

To answer these questions, an analysis must be made of the techniques and state of the art in every scientific field which is involved. At the same time, an analysis of the qualified sources must be undertaken.

Such analyses give better perspective of the "knowns" and "unknowns" in technology, probable and possible approaches for pursuing the development

effort, advantages and disadvantages of using multiple sources, and the scope of the management problem of coordinating the overall effort. Evaluating these considerations, then, in the light of the time schedule within which the system must be operational, the military department concerned is able to plan and to adopt the particular techniques of management and of contracting which are best suited to accomplish our overall objective.

These basic decisions having been made, a whole complex of actions are begun. Let us first discuss the source selection process.

SOURCE SELECTION

The source analysis, just covered, has narrowed the field to those firms possessing the greatest all-around capability for meeting the requirements of the new weapon system and its major subsystems and components. A request for proposals must now be prepared and sent to the firms selected. The request for proposals, of course, would also be sent to any other company that requested an opportunity to participate. We deny nobody that opportunity.

It is apparent that proposals which are submitted will be only as good as the description of the work set forth in the request for proposals. Even though it is necessarily a performance type specification, every effort is made to assure that it will be as definitive and complete as possible. The work statement must describe the application which the various arts: as of science and technology have in the work to be done. It must also reflect the total engineering and development requirement, including laboratory work and tests. It must cover tooling concepts. Support equipment needs must be envisioned. Training requirements, both for personnel and devices, must be covered. Testing programs—static testing and flight testing in the case of aircraft and missiles—must be developed. And, above all, the performance goals which the new weapon system is to achieve must be clearly identified.

The function of a proposal in a weapon system program is to establish (1) the managerial and technical approaches and merits of the competing prospective contractors' plans, and (2) the capability of each to carry out his plan to meet the requirements of our specification or work statement at reasonable cost. The firms solicited are generally asked to give specific consideration to certain specific tasks in presenting their managerial and technical approach.

Examples, for a missile might be—

1. Integration of missile subsystems, missile assembly, and system tests, including tooling, test equipment, and handling equipment for the research and development program.

2. Preparation of research and development test facility criteria, layout, outfitting and maintenance of test facilities.

3. Development of criteria for operational handling equipment, also

outfitting, missile checkout, and launch control equipment.

4. Development of research and development, ground and airborne instrumentation for system test and evaluation of the weapon system.

Moreover, the request for proposals usually suggests that each firm submitting a proposal consider the following and any additional factors desired, and include in his proposals at least the following information:

1. *Organization*.—An organizational chart showing the specific organizations which would be assigned to perform the work; the names of key management, scientific and engineering personnel who would be assigned to the project and the qualifications and experience of each.

2. *Related experience*.—Experience of the firm on similar or related projects and whether presently performing or negotiating for similar or related work with another military department or with Government contractors.

3. *Managerial and technical plan*.—The overall managerial and technical approach to be followed; the problems expected to be encountered; methods to solve them; criteria and methods to keep costs at a minimum, etc.

4. *Subcontracting*.—The percentage of subcontracting contemplated, and, if known, the identity of the subcontractors and the work to be performed.

5. *Make or buy*.—The proposed make or buy structure—It being pointed out that we desire that subcontracting, including maximum utilization of small business, be accomplished to the fullest extent consistent with efficient performance of the contract.

6. *Delivery*.—Indication of starting date based on the number of days after receipt of award and a time schedule for accomplishment of outlined milestones or tasks.

7. *Facilities*.—Total facility requirements from the point of view both of research and development and of production, including what is available by ownership, lease, or conversion, and what is unavailable.

8. *Financial information*.—Necessary budget information based on the managerial and technical approach proposed; how financial requirements are to be fulfilled; and if financing problems exist, their extent and anticipated solution.

9. *Cost estimate*.—Since the Government contemplates a cost-plus-a-fixed-fee contract in undertaking a new weapon system development, a cost estimate for completion of the project, including a detailed breakdown to show how the overall cost estimate was determined; the cost estimate portion of the managerial and technical proposal to be submitted in separate form to permit separate evaluation of the mana-

gerial and technical merits and performance portions of the proposal. After preparation of the requests for proposals has been completed and mailed to the firms whose selection we described earlier, some additionally helpful steps are usually taken. Before the time for submission of proposals, a preproposal briefing is usually held to which are invited all those to whom the request was sent and any other firm which has indicated an interest in submitting a proposal. The purpose of this preproposal briefing is to make certain that all firms fully understand all requirements of the request for proposals. Additionally, in the case of a missile, an indoctrination briefing is usually given with the same firms invited to attend. The purpose of this briefing is to acquaint all prospective contractors with the test ranges and the test programs associated with the conduct of flight test programs at that range.

All aspects of all proposals received are carefully evaluated by highly qualified personnel in the light of the factors described earlier. After complete review, this evaluation group makes specific recommendations to a higher level of review, composed usually of senior officials representing such elements as research and development, procurement and production, material support, and the operating or using agency. On the basis of these reviews and recommendations, the final source or sources are selected usually at the top level of the military department concerned.

PROGRAM PLANNING AND CONTROL

Concurrently with source selection, equally intensive efforts are going on in the managerial area. Right at the inception of the program, the entire package must be planned and programmed.

As an indication of the scope of the problem, the Nike-Hercules program has 10,000 subcontractors and suppliers, whose efforts must be controlled and time-phased. Our Government weapon system managers accomplish this by what they call milestones. These are significant events which must occur by certain points in time, whether their accomplishment is by contractors or by the Government. The Air Force has identified 148 major milestone actions which must be accomplished to deliver a weapon system on time. In the case of a contractor, for example, these are points in time when production engineering must be completed, when tools must be ordered and on hand, when manufacturing space must be available, when subsystems checkout must be finished, when each stage of the test program must be accomplished and when delivery is required. There are equally important milestones on the Government's side. Examples might be the time when the operational plan must be spelled out, when mockup inspection must take place, when ground support equipment requirements must be known, when the number of test vehicles required must be determined, and when operations and technical personnel must be trained. All these milestone actions,

both contractors' and the Government's, must be fused in time so that when the weapon is delivered, it will be operational and we will, in fact, have a complete weapon system.

In short, effective planning and programming is required with respect to management of all the equipments and facilities which compose the weapon system. It not only must be done initially, it must be revised time and time again.

WEAPON SYSTEM CONTRACTING

Although our discussion up to this point has mentioned the procurement function, we wish now to discuss the subject more directly.

There are no novel principles involved in weapon system contracting. The policies and procedures of our Armed Services Procurement Regulation apply equally to procurement in this area and no differently than they do to procurement in other areas. Our basic policy of obtaining competition to the maximum extent practicable is pursued just as vigorously here as elsewhere. Similarly, our small business and labor surplus area programs are equally emphasized. The kinds of specifications we use are the basic ones we discussed in an earlier presentation. There are no additional types of contracts available for special application in weapon system procurement. While weapon system contracting may be characterized as generally one where little or no initial cost experience is available, the same may be found in other areas.

What distinguishes weapon systems procurement is the same factor we have referred to repeatedly—time. The same two basic factors, coordination and time phasing, are overriding considerations in the procurement area just as in the management area. Thus, we must plan, negotiate and incorporate contractual provisions to assure compatibility of efforts among all participants in the program. Duplication of effort must also be avoided. We cannot have a contractor, for example, designing a subsystem comparable to one already developed. Contracts must be placed for end items, subsystems and support systems so as to insure their availability at the proper time for integration into the weapon system. In fact, all the coordination and time phasing in the planning and re-planning and the programming and re-programming in regard to contractors' operations must be specifically covered in contractual documents.

With the perspectives these overriding factors give us, let us discuss briefly how weapon systems are procured. We usually break it down into phases. Normally, the first phase would involve contracts for design and development work and construction of mockups. Contracts under the second phase would call for completion of engineering, construction and test of prototype units. The third phase would be production contracts.

Contracts under the first two phases are necessarily cost-plus-a-fixed-fee contracts, because no adequate basis exists for fixed price negotiations. To quote what we said earlier in the dis-

ussion of "Types of Contracts," "where we are demanding tomorrow what was untraded yesterday and where the passage between the two is filled with unknowns, the costs of performance cannot be estimated with reasonable accuracy." Actually, the tasks of these first two phases of contracts are to resolve the unknowns and to prepare the most detailed design specifications, including precise manufacturing drawings, which are essential before any real production of items under phase 3 contracts can begin. As progress is made and more knowledge of production experience gained, we seek to make fixed-price contracts which provide for pricing. Wherever appropriate, even when we must use cost-reimbursement type contracts, we incorporate incentives to reduce costs. The possibility of utilizing firm fixed-price contracts usually is found at lower subcontract tiers where relatively standard items may be involved. But, overall, as specifications become more firm and greater production experience is acquired, our direction is always toward the fixed-price type of contracts which allow for closer pricing.

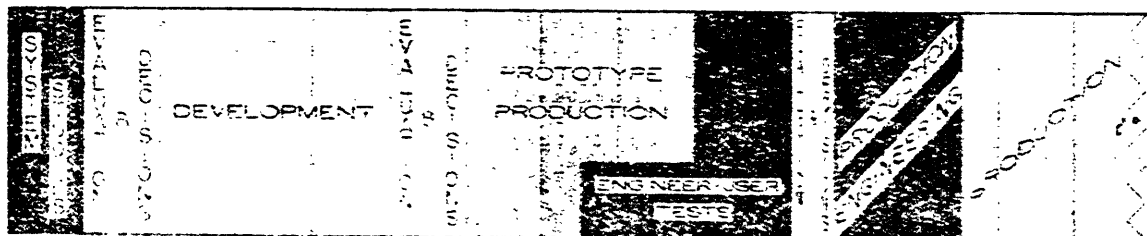
Even though weapon systems contractors are selected only after an elaborate and searching source selection procedure, we just do not copy the pertinent parts of a proposal on to an appropriate contract form and sign it. Rather, there is a big job still to be done. The contracting officer and his team of specialists study the firm's proposal. Their purpose is to insure that whatever facet of the proposal may reasonably be improved, modified, clarified, expedited or eliminated is so done. The weapon system requirement and the interest of Government demonstrate, be negotiated, agreed to, and provided for in the contract.

Up to now, we have not mentioned the subject of pricing. Obviously, this goes to the very core of the negotiation. In fact, we consider it so important that the next presentation will be directed entirely to this subject. All we want to point out now is that, during the negotiation, intensive review and analysis are made of the prospective contractor's facility requirements, its purchasing system, its subcontracting plans, its "make or buy" program, and its estimated costs for the work involved.

Reference must also be made to what we call follow-on procurements, namely, the procurement of the additional quantities of the weapon needed to meet the military requirement. At this point in time, the weapon system has been produced and accepted, and specifications and technical data, including manufacturing drawings, are available. Why, then, it may be asked, do we so often contract with our initial sources? Any number of competent firms should be able to build the weapon system. Theoretically, this is true. The problem here, however, is that once the initial sources have produced the weapon system, we have such an investment in facilities and the contractors have acquired such engineering and production experience, that the cost, both in dollars and

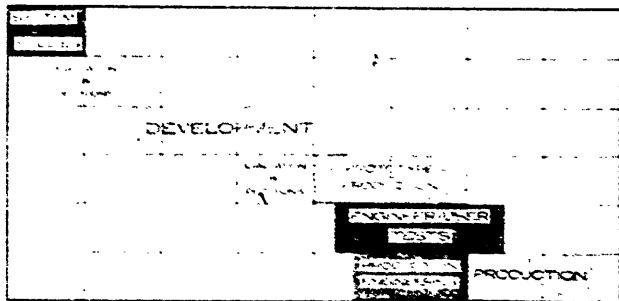
SYSTEM DEVELOPMENT METHODS

SEQUENTIAL PROGRAM



T I M E

TELESCOPED PROGRAM



T I M E

time, would be prohibitive to have new sources duplicate. In these instances, as a practical matter, we are committed to our initial group of contractors for the duration of the major program. Thus, while intense competition is generated at the inception of such a program, we must in many cases, as a matter of good business, negotiate the follow-on procurements with the original sources. This we do under the authority which Congress provided for in exception 14.

We do not mean to imply, however, that every single component and part is procured from the original contractor. Once all the thousands of components and parts have been put together and have proved themselves in their new environment in a weapon system, some items, such as electric generators, batteries, compressors and the like, tend to become stabilized. These, we break out of the overall package, then procure through widespread competition, either by formal advertising or negotiation, as appropriate.

This, in brief, is weapon system procurement. It is difficult even to start with and is further aggravated and complicated by the compression of time. We meet these procurement problems, as we do the management problems, with effective planning, effective programing, proper timephasing, and effective contracting.

In conclusion, we would like to point out that the weapon system concept is nothing more, in essence, than a specially created task force with specific high priority goals to achieve in a limited period of time. We staff it on the Government's side with the best in management, technology and procurement in the Department and, on the contractors' side, we seek the best in management, technology and production that industry has to offer. The concept has proved itself time and again. We need it and will continue to need it so long as world conditions remain what they are today.

PRICING OF DEFENSE CONTRACTS

Our pricing policy is to procure what we need from responsible sources at fair and reasonable prices calculated to result in the lowest ultimate cost to the Government. Where the forces of competition are effective, we achieve this goal. We do so by the use of either formal advertising or competitive negotiation. Where competition is unavailable or ineffective, we seek the same goal by negotiation, and we believe we generally attain it.

How we do so will be the subject of this presentation. We will discuss our pricing objectives, our pricing tools, our pricing techniques, and the area of subcontracting which requires special attention.

PRICING OBJECTIVES

Our primary aim is to negotiate a realistic price. We say a realistic price in preference to an "accurate" price. In the context we use it, an "accurate" price is one which covers all of a contractor's properly allocated costs plus a previously negotiated profit. Thus, an "accurate"

price is best attained by use of a cost-reimbursement type contract, which, as made clear earlier, we use from necessity, not choice. The reason is, of course, that the contractor's incentive for cost control and creation of operating efficiencies is minimal in this type of contract. A realistic price, on the other hand, is one which requires a contractor to perform with reasonable economy and efficiency in order to attain the amount of profit included in the negotiated price. The opportunity of making more or less profit than initially anticipated depends directly on the contractor's ability to control effectively all costs of performance.

At the same time, it is our policy to negotiate a reasonable total price. In fact, we caution our contracting officers not to become so preoccupied with particular elements of a contractor's estimate of costs and profit that the most important consideration, the total price itself, is distorted or diminished in significance. This does not mean that negotiations are conducted without regard to estimated or actual costs. On the contrary, price negotiation must be preceded by (1) careful review and evaluation of costs, element by element and in total; (2) consideration of previous prices paid for the same or similar products or services; (3) use of product analysis where appropriate; (4) discussion of the proposal and costs, element by element, with the offeror or contractor to achieve complete understanding of the estimating assumptions and the factory, engineering, purchasing and administrative operations represented by those costs; and (5) the establishment of a particular price objective.

What, then, is our general pricing objective? It is simply to pay a fair and reasonable price for an item of necessary quality to be delivered where and when we need it. A fair and reasonable price is not necessarily the lowest price. Obviously, the lowest priced item will not serve the Government's need if it is deficient in quality or cannot be delivered on time. Thus, we seek to effect our procurements to the best advantage of the Government, price and other factors considered.

PRICING TOOLS

Having stated our pricing objectives, the question then is, how do we go about negotiating a realistic price? Who is the individual responsible for the whole effort? What tools are available to assist him in achieving this realistic price?

1. *Negotiation team.*—From the time a requirement for a supply or service is initiated until the contract is completed, our contracting officer is faced with innumerable specialized problems—problems which no man could possibly be expected to solve alone. The procurement cycle will bring him face to face with matters such as specifications; delivery requirements; facilities and property requirements; the technical and financial capabilities of prospective contractors; small business and labor surplus area programs; and insurance, patent, cost, and legal problems. It is apparent that the contracting officer must have help. He has. Specialists in such fields

as finance, law, contract audit, engineering, traffic management, cost analysis, and small business, are available to investigate and study the problems and advise and assist in solving them. The contracting officer, in effect, then is captain of a negotiation team of specialists with appropriate skills and knowledge. He obtains their advice, evaluates their counsel and coordinates their individual contributions into an overall Government position. Thus, while individually responsible, in effect, the members of, necessarily, a total team effort the best talents and skills we can provide.

2. *Types of contracts.*—Before any contract can be finally priced, all pertinent information must be available. Since the time when this necessary data is available varies from one situation to another, we cannot always finalize the price before the contract is signed. Our various types of contracts have been designed to meet this particular pricing problem.

This is one reason why we devoted considerable time, in our discussion of Types of Contracts, to contracts which were priced at the beginning, others which were tentatively priced at the outset and were repriced during performance, and still others where a definitive price never could be established but which required audit of costs from beginning to end of the contract. The reason for these various types of contracts, as we have pointed out, lies in the time when all necessary pricing data becomes available. For example, if it is possible at the beginning of a contract all information necessary to price, a firm fixed-price contract can be written. If we are unable to rely on all the information remaining constant during the period of performance, such as possible increases in labor wage rates, a fixed-price escalation type of contract would be appropriate. Again, where some of the necessary information will not be available until some time during contract performance, a fixed-price redeterminable contract, where final pricing is postponed, would be more suitable. Thus, we could go down the list of all of our available types of contracts and demonstrate how each contract type is effective in meeting a particular pricing problem.

3. *Current, complete, and accurate data.*—In order to achieve our goal of negotiating a realistic price, the negotiating team must possess current, complete, and accurate cost and pricing data.

During the past year, we have imposed on our prime contractors a new certification requirement. It is required in all procurements over \$100,000 and may also be obtained in procurements of lesser amounts if the contracting officer deems it warranted. Specifically, the requirement calls for the contractor to certify that all available actual or estimated costs or pricing data were considered in preparing the price estimate and were made known to the contracting officer for his use in evaluating the estimate.

The certificate is obtained immediately prior to agreement on negotiated

prices, including targets or price revisions. We want to make it clear, however, that this certification is not a crutch or a substitute for thorough examination and analysis of the proposals by the negotiation team. On the other hand, we believe it is an essential tool and will materially improve the validity of cost and pricing data being submitted to us.

4. *Accurate price aids.*—There is one area in which we cannot achieve a realistic price and have to be content with an "accurate" one. This is in cost-reimbursement-type contracts, which, we repeat, we use frequently but grudgingly. In cost-reimbursement contracts we never finalize a price until completion, but make all payments for contractor performance upon the basis of interim and final audit of costs incurred.

How do we insure an "accurate" price? We have three necessary and effective aids for this purpose—cost principles, audits, and field contract administrative personnel.

Our cost principles are included in our contracts by reference. They specify the standards and safeguards for determining the allowability and reasonableness of costs. We do not reimburse any and all costs a contractor may incur. For example, interest on borrowed capital and donations are specifically made unallowable. And, as we pointed out earlier, our cost principles provide generally that a cost is unreasonable and, hence, unallowable if it exceeds that which would be incurred by an ordinarily prudent firm in the conduct of a competitive business. Further, all cost-reimbursement-type contracts are subjected to audit by our auditors and final payments are made only on the basis of their audits. Personnel who administer contracts in the field, such as cost analysts, quality control and production personnel, and property and administrative contracting officers, furnish valuable information to the contract negotiator for use in pricing.

One further word of explanation is needed. We do not intend to imply that the effectiveness of our cost principles, auditors, and field personnel is limited to cost-reimbursement-type contracts. On the contrary, they play a very important role in any repricing action, such as in price redetermination and incentive contracts. Our new set of comprehensive cost principles was specifically devised to provide guidance to the negotiating team in such repricing actions. Moreover, it is our policy that the services of our auditors be utilized to the maximum extent in furnishing advisory audit reports on contractors' proposals in these areas.

PRICING TECHNIQUES

Now, how do we evaluate proposals? How can we determine, for example, whether the estimated cost or proposed price is reasonable or whether any particular element of cost is necessary or reasonable? There are three techniques which our negotiation team uses in making these determinations: product analysis, price analysis, and cost analysis.

1. *Product analysis.*—Knowledge of the

product is essential to sound pricing. The negotiating team places a value or price on the product by physical inspection of the product, by review of drawings, quality requirements, and job process sheets, from knowledge of manufacturing and assembly techniques, and study of prior procurement data. This provides an estimate of the proper level or value of the item being procured.

The complexity of many items, such as missiles and electronic equipments, limits the use of this kind of analysis. It is used extensively, however, in the pricing of simpler products, such as commercial or semi-commercial items, components, and parts. To develop an effective product analysis involves answering such questions as: What manufacturing processes will be utilized? How much and what types of materials will be required? Can it be made more cheaply and still perform the function?

Where this technique may appropriately be used, it is an effective tool in evaluation of price proposals.

2. *Price analysis.*—Price analysis involves comparing two or more prices quoted at the same or different periods of time by the same or different suppliers. Some form of price analysis is made in every procurement, even when competitive bids or proposals have been received. The degree of price analysis required, of course, is much less than where effective competition cannot be obtained. Comparative price analysis assists in establishing broad concepts of price relationship and of reasonable pricing.

Before undertaking a price analysis, it is essential to assure that true comparisons be made. As an example, the "make or buy" concept, which will be discussed later, of two competitors on a weapon system project may vary substantially with the result that one firm shows a high material charge and a low direct labor charge in relation to the other. Similarly, a comparison between a current proposal and an historical price would have little validity where the specifications for the item have undergone a substantial change, or where starting load costs have been amortized. Thus, to effect a suitable basis for comparison, appropriate adjustments have to be made for differences in such factors as specifications, starting load costs, quantities, time for delivery, Government-furnished materials, and the general level of business and prices.

Sometimes, rough yardsticks are developed, such as dollars per pound, or per horsepower, to point up gross inconsistencies which must be subjected to additional pricing techniques, such as cost analysis. These yardsticks are particularly helpful when negotiating with one source, since no other products would be available with which to compare his estimated costs.

Price analysis readily discloses differences in price, although it may not explain them. When the differences or inconsistencies cannot be satisfactorily explained or accounted for, cost analysis is available.

3. *Cost analysis.*—Because a large share of our defense dollar is spent on

negotiated limited source procurements in which no better standards for price comparison exist, the technique of analyzing the offeror's or contractor's cost estimates is used as a substitute for the forces of competition and provides guidance on the fairness and reasonableness of the prices to be paid. Cost analysis involves the evaluation of specific elements of estimated cost to determine whether the cost of any element can be influenced by closer pricing.

Cost comparison is one of the first steps in applying this technique, for comparisons of particular cost elements may disclose areas requiring further analysis. Comparison requires reliance upon recorded costs derived from the contractor's books and records of account. To the extent quantitative analysis is required, our auditors perform the function. Qualitative analysis of costs is also required of other members of the negotiation team to determine reasonableness of amounts and prices when compared with other types of material, other manufacturing processes, other types of labor, or other tooling concepts.

Forecasting future cost trends from historical cost experience is particularly important in pricing production-type items. In periods of either rising or declining costs, an adequate cost analysis must include evaluation of the trends. Even in periods of relative price stability, trend analysis of basic labor and material costs is undertaken in cases involving production of recently developed, complex equipment. In some cases, probable increases in labor efficiency, and reductions in material spoilage, as a contractor's work force gains in experience with such new products, can be predicted statistically, as by efficiency curves to predict the reduction in spoilage rate or learning curves to evaluate the reduction in labor hours.

We should point out that the use of cost analysis is concentrated on the elements of cost where the most dollars are involved, rather than on elements where but few dollars are to be spent.

Before cost analysis is undertaken, however, the contracting officer must decide the extent of the analysis required in the case at hand. How effective have product and price analyses been? What is the size of the proposed contract? What will it cost in dollars and time to accumulate the information necessary for a cost analysis? The advice of our audit personnel is solicited in determining the extent of cost analysis to be undertaken. However, cost analysis is always effective and desirable whenever:

- (1) effective competition cannot be obtained;
- (2) a valid basis for price comparison cannot be established because of lack of definite specifications or the novelty of the item;
- (3) price comparisons have revealed apparent inconsistencies which cannot be satisfactorily explained or the prices quoted appear to be excessive;
- (4) the proposed contract is of a significant amount and is to be negotiated with one source, or will

probably represent a substantial percentage of the contractor's total volume of business; or

(b) a cost-reimbursement, incentive, price redetermination, or time and material contract is negotiated.

Prime or Subcontracts

Since a large proportion of the procurement dollar is spent by prime contractors in subcontracting for work, raw materials, parts and components, the extent of subcontracting and the quality of subcontract pricing greatly affect the pricing of defense contracts. Although basic responsibility rests with the prime contractor for decisions to "make or buy" for selection of subcontractors, and for subcontract prices and performance, the contracting officer must possess adequate knowledge of these elements of cost and their effect on the prime contractor's price.

During the past year, the General Accounting Office reported to Congress on certain defense contracts under which cost audits revealed that excessive prices were initially paid to some contractors. These cases, in our opinion, demonstrated two areas where our procedures and practices were weak and needed strengthening. One area was in regard to pricing data being furnished by offerors or contractors which were not current, complete, or accurate. We have specifically taken care of this situation by the requirement for closer review and for certification, which we described earlier. The other area where weakness appeared was in regard to subcontracting. In short, it was demonstrated that we had been placing greater reliance on prime contractors' pricing of subcontracts than was justified in the light of the specific examples of inadequate and ineffective pricing cited.

Accordingly, we have extensively revised, expanded, and strengthened our ASPB coverage of the subcontracting area, to include detailed policies and procedures for the evaluation, review, and approval of contractors' "make or buy" programs, purchasing systems, and proposed subcontracts. Review of these matters is particularly necessary where the item, system, or work is complex, the dollar value is substantial, or competition is limited, and where cost reimbursement, price redetermination, or incentive-type contracts are to be used.

Each of these matters merits further discussion.

1. "Make or buy" program.—"Make or buy" simply means the identification of the particular components, assemblies, and parts of the end item which the prime contractor intends to make in his own plant and those he intends to buy from subcontractors. When necessary to good pricing, as in contracts of large dollar value or for complex work, the offeror is required to submit his proposed "make or buy" plan plus sufficient information to permit the contracting officer to evaluate it in the light of how it affects the interests of the Government.

There are many factors to consider. What will be the effect on the price if he make a particular component? Has

he ever made it before? Is it related to his normal in-plant operations? How can we be assured of regulate quality if he has no prior experience? Can he deliver on time? Will new facilities be required? Does he look to the Government to furnish these facilities? Could it be better made elsewhere? What other sources have capability and existing facilities to make the item of the required quality and at a competitive price? Here and there business concerns have been considered and given a fair chance to compete? Would it be better if the Government purchased the item and furnished it to the contractor? Thus, even these few examples show the possible effects on the prime contractor's price which may result if cost data are instead of being bought.

Accordingly, the "make or buy" program is carefully scrutinized and evaluated. Negotiations are pursued with the offeror to effect whatever changes or revisions in the program appear in the best interests of the Government. After agreement is reached with the offeror on the program, he is notified of its approval and of any requirement imposed by the contracting officer for further review during performance of the contract. Further, a clause is generally inserted in the contract which requires that the contracting officer be notified in advance of any proposed change in the "make or buy" program together with the reasons and facts which the contractor feels justify it. His requirement for further review would be included only in contracts which provide for later revisions in price.

2. Purchasing systems.—Another important area in the review of costs and profits is the effectiveness of the offeror's purchasing system. The reasonableness of his estimated material costs is wholly dependent on how good a job his purchasing department can do. The importance of this to us is indicated by the fact that so much of the work on our larger contracts is subcontracted. It has been estimated, for example, that in the airframe industry 30 to 40 percent of the dollars is subcontracted; in engines, it might run 40 to 60 percent; and, in missiles, it ranges from 30 to 60 percent, depending on the particular missile.

The purpose of analyzing the proposed contractor's purchasing system is to determine, depending on the degree of its efficiency, the extent of surveillance which the contracting officer should maintain over individual subcontracts. If we find a sound, efficient purchasing system, we approve it and watch it on a sampling basis during contract performance to insure that efficiency is continuously maintained. Where we find improvements necessary, we require that changes be made.

Among the things we look for in appraising a firm's purchasing efficiency is the extent to which he examines the price proposals from his subcontractors; whether he obtains current, complete, and accurate cost and pricing data; how much competition he obtains; how he

treats his affiliates or other companies with whom he has close working arrangements; how he determines the financial and other responsibilities of his subcontractors; and whether he gives consideration to our small business and labor surplus area subcontracting program.

Approval by the contracting officer permits the contractor to make subcontracts within stated amounts, without further reference to the contracting officer. Obviously, where we can rely on the efficiency of the contractor's purchasing system, we have more assurance of sound pricing of the prime contract.

3. Review of proposed subcontracts.—Review by contracting officers of proposed subcontracts is essential in the control of subcontract costs during performance of certain types of contracts. For this reason, under fixed-price incentive and redeterminable contracts, advance notification and Government consent is generally required of every cost-type subcontract estimated to exceed \$10,000 and of every other subcontract in excess of \$100,000; and, under cost-reimbursement-type prime contracts, such notification and consent are required for all cost type, time and material, and labor-hour subcontracts and for all other subcontracts exceeding \$25,000 or 5 percent of the estimated cost of the prime contract. Further, in the case of noncost-type prime contracts exceeding \$100,000, the first-tier subcontractors are required to certify to the prime contractor that they have disclosed all available and current cost and pricing data relevant to the pricing of the subcontract. The form of certificate is similar to that required of prime contractors which was mentioned earlier.

The contracting officer's consent to proposed subcontracts is ordinarily required on a subcontract-by-subcontract basis. However, the mere number of subcontracts—in missile programs, it runs into the thousands—imposes such an administrative burden on our contracting personnel, that it has been necessary to shift the burden, to some extent, to prime contractors whose purchasing systems have been reviewed and found acceptable. Such contractors are permitted to place subcontracts within certain limits without further consent from the contracting officer, except cost-reimbursement-type, time-and-material, and labor-hour subcontracts. Consent is also required under cost-reimbursement-type prime contracts of proposed subcontracts which provide for fabrication, rental, installation, or other acquisition of any item of industrial facilities.

The contracting officer's purpose in reviewing proposed subcontracts is the same as in considering prime contract proposals. Thus, after assuring that the proposed subcontract is consistent with the approved "make or buy" program, the contracting officer uses the same techniques and procedures as are used in evaluating the prime contract proposal.

In passing on the reasonableness of costs and prices on proposed subcontracts, a number of factors are evalu-

ated: the extent of competition obtained for the subcontract work; if not competitive, whether cost breakdowns were obtained and analyzed; and the type of contract proposed to be used. In short, the same standards and criteria for approval of a contractor's purchasing system apply to approval of individual subcontracts.

Profit or Fee

Profit or fee is only one element of price. It normally represents a smaller proportion of the total price than other elements such as labor and material. While our prime concern is the reasonableness of the overall price, guidelines have been established for negotiation of reasonable profit or fee.

Where competition is effective and proposals are on a firm price basis, we do not consider in detail the amount of profit included in a price. For example, if two competing firms bid \$105 and \$110, we would award, everything else being equal, to the firm with the lower price, even though, being more efficient, his profit might be 10 percent as compared with only 7 percent for the other firm.

However, where competition is unavailable or ineffective, the estimate for profit or the proposed fixed fee is analyzed in precisely the same manner as are all other elements of the estimated cost or proposed price.

As pointed out in discussing types of contracts, our objective in each procurement is to negotiate the type of contract and price which include a reasonable amount of risk to the contractor while, at the same time, providing him with the greatest incentive for efficient and economical performance. As we have also seen, the firm fixed-price contract carries the greatest risk and offers the greatest possibility for profit or loss of any type of contract. At the other extreme, the cost-plus-fixed-fee contract involves the least risk and the least profit. In between are the types of contracts, under which the Government assumes a portion of the risk, such as price redetermination and incentive contracts.

Some other factors which influence the amount of profit or fee are:

(1) *Nature of work to be performed.*—An important factor is the difficulty or complexity of the work to be performed and any unusual demands of the contract, such as whether, in research and development work, the project requires a new approach unrelated to existing technology.

(2) *Contractor's performance.*—The fact that a contractor has consistently achieved excellent results in meeting his contractual commitments, as compared with other contractors in similar circumstances, is considered in negotiating the profit or fee. Conversely, a poor record in this regard is also considered in determining a reasonable profit or fee.

(3) *Subcontracting.*—A relatively large amount of subcontracting does not necessarily result in a lesser profit or fee. Of primary importance is the degree to which subcontracting provides a better product and lower costs, with timely delivery, and in which the contractor assumes heavy managerial effort, responsibility, and risk. In this connection, favorable consideration is given in determining the amount of profit or fee, where a contractor is unusually effective in meeting small business and labor surplus area concerns.

(4) *Extent of Government assistance.*—We encourage our contractors to perform with a minimum of financial facilities, or other assistance from the Government. Where substantial assistance must be furnished by the Government, this factor is considered in determining the profit or fee.

A fair and reasonable provision for profit or fee cannot be made simply by applying a certain predetermined percentage to the cost estimate or selling price of an item. Instead, the profit or fee is first established as a dollar amount, even in cost-reimbursement-type con-

tracts, after considering the factors we mentioned and all others which are relevant.

Finally, all factors, including those pertinent to profit or fee, must be evaluated in the light of our basic policy that supplies and services shall be procured from responsible sources at fair and reasonable prices calculated to result in the lowest overall cost to the Government.

CONCLUSION

Mr. Chairman and members of the committee, we have shown you how we are organized to price defense contracts, the tools that have been made available, the techniques which have been developed, and the two areas, prime and subcontract, on which we concentrate.

We believe we have provided necessary and effective policies, procedures, tools, and techniques for a creditable pricing job to be done. And, although all judgment decisions required in a \$25 billion procurement program cannot be made without sometimes wishing for the opportunity to make a few of them over again, a creditable pricing job is being done.

This is not to say we are satisfied. We recognize only too well that improvements can be made. Each military department has emphasized the training of its procurement people. Numerous training courses at all required levels of skill are regularly being conducted. In addition we are studying ways to provide for joint training of senior procurement personnel. This, we believe will increase our overall effectiveness. Similarly, since policies and procedures are not an end in themselves, we recognize and are meeting the necessity of assuring compliance and execution by our contracting personnel and cooperation by defense contractors in our policies and procedures.

The problems in a program so vast as defense procurement are both numerous and complex. We do not claim to have all the answers. We appreciate, sincerely, constructive assistance from any source at any time.

Senator JAVRS. A State like my own, which is an enormous industrial State and which sees quite a drastic decline in defense participation, may have to take it, but at least it wants to know by what process this is happening. This becomes a very vexing question.

I think we can render a great national service if we can at least lay it before the people so that as many as possible can apply their minds to either feeling that it is fair or if they have any objection to it, and that includes me, to come up with suggestions as to how it can be made fairer.

Mr. McGUIRE. Senator, I think there has been a great deal of comment on the apparent fact that negotiation was done somewhat secretly. I don't agree with this. At any rate, to try to solve this problem, we not only publicize who was the winner in our negotiated competitions, but we also tell the losers. The losers can come in to us and find out how we determined the award. I think this follows the pattern of what you are talking about.

Senator JAVRS. Thank you very much.

Senator O'MAHONEY. I wonder if it would be proper to bring in here the report which comes from one of the committees of Congress that a law may be suggested to forbid a retired officer for 2 years to be employed by any contracting firm. Do you know anything about that?

Mr. McGUIRE. Yes, quite a bit.

Senator O'MAHONEY. In those examples you were about to give me, Mr. BANNERMAN, I suggest that you state the personnel involved in making the decision.

Mr. BANNERMAN. Yes, sir; this is very frequently a lot of people, as you can imagine.

Senator O'MAHONEY. Well, that is all right.

Mr. McGUIRE. I believe that Congressman Hébert's bill comes up for hearing on the 8th on that subject.

I personally have an interest in this, in its cost aspects.

Senator O'MAHONEY. Will you testify at that hearing?

Mr. McGUIRE. I don't expect to at the moment. I think that in the areas that I am referring to, Senator, if I recall the report correctly, Congressman Hébert said that this would take some administrative decision by the Secretary of Defense.

There is no law that I know of that says that if company A, out of its profit, wants to advertise Bomarc versus some other missile, that they can't do it. I don't agree that they should.

I think there ought to be some way to tell them that this is not in our best interest and they cannot advertise our product, but I am not sure legally I can stop them.

We are going to try to find out how we can get them to understand the problem.

The CHAIRMAN. Have you kept any record of the ex-Secretaries, Under Secretaries, ex-Assistant Secretaries, Assistant Under Secretaries, assistant Assistant Secretaries who have been in the Defense Department and are now among the 100 largest suppliers to the Defense Department?

Mr. McGUIRE. I don't know of any such record.

The CHAIRMAN. I would like to make that request now.

I was one of those who made the original request for a record of those with the rank of captain in the Navy, colonel in the Army, who were in this 100. Now I think it is only proper we should find out about the civilians. Would you assemble that information?

Mr. McGUIRE. Yes, sir.

My name cannot be on that list.

The CHAIRMAN. I notice a smile creeping over the faces of those in uniform when I say this.

Mr. McGUIRE. May I continue?

The CHAIRMAN. Yes.

LIMITED USE OF FORMAL ADVERTISING

Mr. McGUIRE. The formal advertising is suitable for use only where there are relatively firm specifications. The vast preponderance of the procurement dollars of the Department are in research and development or in areas of rapidly changing technology. The lack of firm specifications and the necessity for utilizing rapidly advanced industrial techniques and invention in such contracting makes procurement by negotiation essential in many cases.

The committee also is interested in our use of cost reimbursement types of contracts. It is our policy to use such contract only when the nature and complexity of the procurement is such that the cost of performance cannot be estimated with reasonable accuracy.

Our policy favors the use of firm fixed price contracts unless there is a showing in each case that the use of another type of contract is more appropriate. Cost reimbursement is used predominantly in contracts having a high content of research, experimentation, or development.

The percentage of our dollars going into research, experimentation, or development has been increasing. Accordingly, cost reimbursement now represents 40.9 percent of our contract dollars.

The CHAIRMAN. When you use the term "cost reimbursement," is that an arrangement in which a figure of estimated cost is given, then the actual cost is found and the difference, or alleged savings, is divided equally between you?

Mr. McGUIRE. No, sir; that is not. This is the type of contract, Senator, where we make an estimate of what the cost is and then a fee is determined. The fee is then frozen. Whatever the costs turn out to be, they are reimbursed to the contractor.

The CHAIRMAN. Is that cost plus fixed fee?

Mr. McGUIRE. That is correct.

Now, the type you are talking about is the incentive type.

The CHAIRMAN. Your figures agree with ours.

In figuring cost-reimbursement contracts, it is approximately 41 percent of the total. We have a figure on fixed price of 45.5 percent.

Is that the contract of the type I have described?

Mr. McGUIRE. We are both working from the same table, I believe, Senator. Let me check that.

The CHAIRMAN. Well, let us say on the fixed-price contracts, is that one where there is an estimated price? Then when the actual costs are found, the difference between the estimated price and the actual costs is divided equally between the contractor and the Defense Department?

Mr. McGUIRE. Not necessarily.

I would like Mr. Bannerman to answer that in detail for you.

MAJOR TYPES OF NEGOTIATED CONTRACTS

Mr. BANNERMAN. The fixed-price type of contract, Senator, includes various specific contractual arrangements, including the one you mentioned. It also includes the type of contract you make on formal advertising, firm fixed price.

It also includes those contracts where, say, by virtue of the fact it may run on for 3 or 4 years, we make a firm fixed-price contract, but provide for escalation of some material content that may go up.

All of these are called fixed-price contracts.

The cost-reimbursement contract, if I may supplement what Mr. McGuire said a minute ago, is a contract under which we contractually agree to reimburse the contractor for whatever his costs may turn out to be. On top of that there may be a fixed fee negotiated at the outset or, in some cases, as in contracts with universities or colleges, we have no fee, just cost alone.

Occasionally we will find a research project that is of interest to the contractor with whom we are making the contract and we share cost, we will pay 50 percent of the cost and he will assume the other 50 percent. All of these are called cost-reimbursement contracts.

Mr. McGUIRE. Does that answer your question, Senator?

The CHAIRMAN. The classification of fixed-price contracts needs some subdivision in order to be truly meaningful.

Mr. BANNERMAN. We have such subdivisions, Senator.

Mr. McGUIRE. To assist in administering our cost-reimbursement contracts, we have recently issued a revised and greatly expanded set of contract cost principles. All such contracts are subject to audit by the Government.

I might say in respect to these cost principles that some of the people in the General Accounting Office have complimented us quite highly on getting them out; I suspect over the period of the year we may have to do some tightening up on them.

The CHAIRMAN. When did you issue this set of principles?

Mr. McGUIRE. Last fall, Senator.

This is something which has been in the development stage for about 5 years. Everyone realized this ought to be done, but no one seemed to get around to getting it done.

The CHAIRMAN. Is it possible that this may have been partially stimulated by congressional action?

Mr. McGUIRE. I would say there could be no question about it.

The CHAIRMAN. Thank you, sir.

Mr. McGUIRE. Although I think I had a little stimulation on it, too.

Small business programs: From available statistics we estimate that small business firms receive something more than \$7 billion per year in private—

The CHAIRMAN. Before you go on to small business, I have on the far side of the table here the reports of the General Accounting Office which the General Accounting Office has made to Congress, dealing with the Defense Department. I think these universally deal with procurement, terms of contracts, storage, and so forth.

You see, they are quite formidable. We have had them analyzed. I have before me these cards analyzing each one and as you know, the Comptroller General testified yesterday, and in quite scathing terms condemned the practices of the Defense Department in these matters, both in terms of the nature of the contracts originally let, the overstocking of materials, overordering of materials, errors in handling, and so forth and so on.

I have a number of these cards before me. For instance, take the Bureau of Supply Management and production control activities in selected naval shipyards, the Comptroller General says:

We found that the shipyards consistently overestimate their needs of raw material for ship overhaul and conversion work. As a result, enormous quantities of surplus materials have been accumulated which experience shows will be ultimately disposed of at a fraction of its cost. During the fiscal years 1956, 1957, 1958 a sizable amount of naval inventories have been classified as excess to its needs. This included nearly \$850 million worth of those materials used almost exclusive for shipwork.

Now the Comptroller General has made this report to Congress, but he sent copies to you. Now do you have any report to make to Congress about this overordering of \$850 million in the Navy?

Mr. McGUIRE. This report, Senator—I know of its existence—did disclose several situations in the shipyards, and they have resulted in, I believe, some substantial tightening up in this management area.

I do not have with me the answer to the Comptroller General's report. The reports made by the Comptroller General are answered by the Defense Department. We do not agree with him, and I think he pointed this out in his statement yesterday, with everything he said.

There are honest differences of opinion. We agree with him and have had considerable help from him, I might say stimulation, on some of the areas he pointed out. Some of the other things he is talking about we were already working on ourselves.

I could give you examples of that, but I am not arguing with the Comptroller General in his function. I can produce the answers to the Comptroller General and I think they would be of help because in some cases, after a more detailed investigation, we have not always come to the same conclusion.

I do not say his reports are wrong, this would be an incorrect statement. They are very helpful, but there are honest differences of opinion on this matter.

The CHAIRMAN. Here is one on overhauling of aircraft engines.

Mr. McGUIRE. Yes, sir; I know a little bit about that.

The CHAIRMAN. The Comptroller General charged—

Mr. McGUIRE. He was right.

The CHAIRMAN. That as a result of the pipeline of repair 793 aircraft engines costing about \$68 million are being procured in excess of the Navy's requirements.

What is the reply of the Defense Department to that?

Mr. McGUIRE. He is right on that.

The CHAIRMAN. This is the first time I have ever heard an official of the Department of Defense confess error. Thank you.

Mr. McGUIRE. I would just like to discuss this a little bit with you.

We were also working on this. It revolves around the number of days it takes in the pipeline, that is how long it takes to get the

engine back in use and the standby inventory (that you have to put back into use. It involves, in the contention of the Comptroller General, allowing of too many days of letting an engine lie in the depot before you start moving it to the maintenance area.

The Navy was using a figure, I am not sure of this, but it was somewhere in the neighborhood of 230 days, and the Air Force was using a figure of 147 days.

Our people were worried about this difference in philosophy.

The Comptroller General submitted this report to the Navy Department, and the Navy Department did not agree with it.

Through a combination of efforts on our part--I think we had something to do with it, not much maybe, and the Navy themselves had something to do with it, I want to give them full credit on this--the Navy changed its mind.

I think we now have a more efficient requirements index in this area.

The CHAIRMAN. Did you buy the 204 additional engines?

Mr. McGUIRE. I can't answer that question offhand.

The procurement would have been done in the Navy. But I think in the future reports of the Comptroller General in this area there will be a more objective rather than a defensive looking at the report.

(The following was later reserved for the record.)

DEPARTMENT OF THE NAVY COMMENTS ON THE GENERAL ACCOUNTING OFFICE
RECOMMENDATIONS RELATIVE TO THE AIRCRAFT ENGINE PIPELINE

The General Accounting Office made a review of the aircraft engine pipeline in the Department of the Navy. I would like to assure you that this GAO report sets forth facts in an understandable manner and is an objective presentation of a management problem which the Navy has been confronted with for a number of years. Progress in correcting some of the undesirable management problems has been made, although at times slower than desired. The Navy will keep under constant review requirements for and the management of aircraft engines. The Bureau of Aeronautics and other offices within the Navy have developed objective and realistic engine requirements to support mobilization (limited war) and/or general war operations and have converted this requirement to a peacetime and emergency management program.

The GAO report included seven recommended courses of action to be taken in the engine area. The Navy and the GAO are now in complete agreement on five of these seven recommendations which are contained in their report. The other two recommendations are essentially the same single recommendation in that they recommend action be taken by two separate levels of administration within the Department of the Navy. These two recommendations are, "That the Navy plan engine procurement on a 147-day pipeline," using peacetime factors. (The GAO 147-day pipeline and the Navy 150-day cycle are synonymous and will be referred to hereafter as a 150-day cycle.) The Navy agrees in principle with the 150 days as a minimum pipeline cycle for management purposes during peak peacetime operating levels, and/or emergency (limited war) conditions and will use a 150-day cycle under these conditions. The Navy will procure engines on this 150-day management cycle procedure using mobilization (limited war/emergency) operating factors.

The second point wherein the Navy and the GAO are not completely in agreement is that GAO recommends a 150-day pipeline be adhered to without deviation. Basically the Bureau of Aeronautics agrees with the 150-day pipeline for management purposes, at those periods when a maximum number of serviceable engines are required: i.e., at the peak aircraft operating level, emergency or limited war, and/or general war conditions. A 150-day cycle time, without deviation during peacetime, is considered by the Navy as being an unnecessary expense during peacetime as it is not required during program buildups and then later after peak operating aircraft levels have passed.

The Navy contributed to both points of disagreement that have been cited by using an unsophisticated procedure for calculating total engine requirements. This former Navy system used as a base the peacetime aircraft operating num-

bers, utilization, and deployment levels and then used an average multiple to calculate the numbers of engines required for procurement for mobilization or limited war conditions. This resulted in a 210-day pipeline using peacetime plans.

The GAO has stated in their report that "We believe that mobilization reserve needs to (1) the extent a legitimate requirement exists, should be a positive and identifiable factor in procurement, disclosed to appropriate congressional committees and made subject to the same review, analysis, and approval as any other major procurement; (2) the quantities needed should be computed on the basis of specific plans of action; (3) the number of aircraft those carriers can accommodate, etc." The Navy concurs completely with this recommendation and has taken action to implement these recommendations, and in addition, is establishing positive controls wherein the management cycle of aircraft engines can be policed and directed to work as planned. This sophisticated system will be used for aircraft engines and other high-cost items. It will be a joint system of communication and computers which will provide daily transaction activity and by the memory capability of these computers also provide daily reconciliation and pinpoint cases where followup action is required.

A complete recalculation of all engine requirements against assets will be accomplished at least twice annually and more often for all critical and current engines. These calculations will include all pertinent factors, particularly revised planning factors for deployment, operating life, flight-hour utilization, actuarial projections, etc. This rapid communication system with its computers will produce up-to-the-minute data for calculating realistic requirements and as well provide management with the data and control with which pipeline cycle norms can be maintained. Of paramount importance is the fact that procurement needs can be calculated, adjusted, and projected to the degree which will assure expenditure of spare part procurement money on a much more current set of facts and planning information. Overall it will require approximately 5 years to establish the required communication and computers system as now planned at an estimated cost of \$4.3 million. However, it is expected that within 1 year the system will be sufficiently established to provide coverage and management of the major quantities of the engines.

The Navy's position is that actual engine procurement should be made on the most exacting and rigid pipeline cycles possible which are, both GAO and Navy, stated to be about 150 days. The Navy believes that at other times in the engine life cycle, management should adjust the pipeline cycle times to provide the required serviceable engines in the most economical procedure. This point of difference between the GAO and Navy is one which would not be detrimental to military operations if the Navy was to accept the GAO recommendation, provided sufficient funds were made available to perform this more expensive operation. The basis of the Navy statement "more expensive" is primarily in two items which are a must for a continued 150-day cycle, (a) use of premium (air) transportation for all engines, and (b) all engines must be overhauled in at least 30 days which requires more physical facilities, tools, test equipment, etc.; and/or multiple shift and overtime operations.

These added costs are accepted during peak operating periods or in mobilization and are recognized as costing less than additional engines. There are periods in peacetime operations before and after peak aircraft operations when, due to the mobilization requirement that engines for 180, 210, or even a greater pipeline are available. In these cases the Navy contends that it is cheaper to use routine transportation and no premium shifts or overtime by extending the pipeline to meet the existing conditions.

The procedures described herein have been approved by the Navy and calculation of aircraft engines for the 1960 procurement program have been based on the 150-day pipeline procedure utilizing mobilization or limited war factors, as directed and approved by the Secretary of Defense.

In summary:

(a) The Navy will use the 150-day cycle as recommended for the management of the engine pipeline during critical, peak, and emergency or limited war operations.

(b) The procurement of engines will be based on this 150-day management cycle using mobilization planning factors.

The policies and procedures which I have discussed either have or are being established as Navy directives and are considered to demonstrate that the Navy has carried out the intent of the GAO report and its recommendations. Also.

that these policies and procedures provide the Navy with minimum acceptable defense capabilities and in keeping with the mission of the Navy and the objectives of the GAO report.

The CHAIRMAN. This is a report of last January on the Army Signal Corps Supply Operations in France. It states that of the inventory of \$180 million, \$23 million worth of stock was in excess of normal operating requirements and approved reserves, and he went on to say the practices of the Signal Corps were inadequate to assure proper supply and determination and this resulted in uneconomical supply operations. Major deficiencies were that the supply records were inaccurate, unreliable, orders were placed for supplies from the United States which were not needed in Europe. Stocks were reserved unnecessarily and stock levels were excessive.

Mr. McGUIRE. I am trying to follow Mr. Campbell's statement.

The CHAIRMAN. I don't know that he introduced that in the record.

Mr. McGUIRE. This report was made when?

The CHAIRMAN. January 23, 1950.

Mr. McGUIRE. I believe, sir, that the Army has answered this.

I will supply you with a copy of that answer. I don't want to add lib what the answer was offhand. I may well have seen it, too.

(The following was later received for the record:)

DEPARTMENT OF THE ARMY,
OFFICE OF THE ASSISTANT SECRETARY,
Washington, D.C., May 20, 1950.

The Honorable the COMPTROLLER GENERAL OF THE UNITED STATES.

DEAR Mr. COMPTROLLER GENERAL: The formal report on the review by your staff of the Army Signal Corps supply operations, U.S. Army, Europe, Communications Zone, at Orleans, France, has been reviewed. In accordance with your request of January 23, 1950, the analysis of this review is included (tabs A through H).

A brief review of the events leading to the conditions cited by your staff is considered pertinent before dealing with the specific criticisms. For instance, rollup stocks turned in by troop units at the end of World War II were consolidated at the Hanau Signal Depot, Germany. The classification, taking of inventory, and the establishment of stock records for these rollup stocks presented a task of considerable magnitude. The points at which these stocks were collected were most advantageously located for receiving items from troops being redeployed at the conclusion of World War II. These points, however, were part of the line of communications through Germany, paralleling the Iron Curtain as finally established by Russian domination of Eastern Europe. In order to strengthen our logistics posture, these stocks were redistributed from Hanau to Saumur and Verdun in France and Pirmasens in Germany in 1951. At that time, the task of segregation and disposition of those World War II residue had not been completed.

Since the German employees from Hanau could not be transferred to France along with the stocks, the task of segregation, classification, and the taking of inventory of these stocks was further delayed by lack of trained personnel at the new locations. During the period when these stocks were being classified and inventoried, the supply records of the Signal Supply Control Agency, Europe, were of necessity based on the best information available. In the re-alignment of the Logistics Command from Germany to France it was necessary to use such warehouse space as could be made available in the new locations. Substandard storage facilities were encountered at both depots in France. This resulted in a diversion of personnel from classification and inventory of stocks to a maintenance-in-storage program to minimize deterioration of stocks. As progress was made in purifying inventory and classification of stocks at these depots the supply records improved accordingly.

The performance of the signal supply system in Europe has steadily improved. As evidence of that improvement, the actual issues to using units in Europe plus stock declared excess have exceeded the volume of supplies requisitioned

from U.S. depots for the replenishment of European depot stocks. This has resulted in a significant reduction in total stocks on hand. For instance, at the time of the General Accounting Office report the total inventory was estimated at \$108 million whereas it was \$86.1 million at the end of December 1958. Excesses were reduced from \$42 million to \$21 million as of December 31, 1958, of which \$15.6 million were returned to CONUS and distributed to Army components.

The Signal Supply Control Agency, Europe, has continued actions to ferret out deficiencies, take corrective action on specific cases, and through selective recruitment and concentrated training of available indigenous personnel, has continued to attack the basic reasons for the deficiencies. In order to provide necessary guidance and assistance to that installation, the Chief Signal Officer has sent managerial and supply specialists to U.S. Army, Europe. All supply functions were reviewed by the visiting teams with special emphasis on requirements computations, both for peacetime and mobilization reserve, retention levels, storage plans, generation and disposal of excess stocks, and the development and maintenance of required supply records. In coordination with the Chief Signal Officer, the commanding officer of U.S. Army Signal Supply Control Agency established a program for improvements during fiscal years 1958 and 1959. The accomplishments of these targets have been and are being reviewed periodically by the Chief Signal Officer.

I believe you will agree with me that the Department of the Army has taken adequate measures to correct the specific deficiencies outlined in your report.

Sincerely yours,

(COURTNEY JOHNSON,

Assistant Secretary of the Army (Logistics).)

Rewritten in OASA (Log).
Concurred in by Colonel Wild.

TAB A

1. General Accounting Office allegation--Summary

"Supply records were inaccurate and unreliable" (p. 4, report to the Congress, Jan. 23, 1959).

2. General Accounting Office recommendation

"a. We recommend that Signal officials give more consideration to determining that causes for the errors in the records and that action be taken to prevent their recurrence. We recommend also that consideration be given toward unifying inventory procedures at the several Signal supply locations.

"b. We recommend that procedures be revised to provide for timely recording of all transactions in the stock status records. Employees should be more properly trained in their assigned duties and their operations should be more closely supervised."

3. Facts bearing on the allegation

a. General Accounting Office comments are summarized as follows:

(1) In 9 percent of the cases tested, supply agency and depot records of on-hand balances for selected high dollar value items did not agree.

(2) Nine hundred transactions processed April 11, 1957, by Verdun General Depot, have been omitted from stock status records at the agency.

b. Discussion.--(1) It is noted that the dollar value of the adjustments required as a result of the General Accounting Office review amounted to only 2.3 percent of the recorded value of the items revised. Review of inventory transactions during fiscal years 1957 and 1958 reveals that the ratio of inventory adjustments to total inventory did not exceed this percentage during any quarter of that period.

(2) The instance of failure to record 900 transactions on April 11, 1957, occurred in the first 2 weeks of the modern Army supply system operations. Procedures for processing and reporting MASS transactions were still in the formative and experimental stages. Controls were considered earlier and put into effect during the inspection.

(3) Improvement in locator records was required. It is noted, however, that errors in location records, while unnecessarily adding man-hours to accomplishment of depot receiving, shipping, and inventory operations, rarely result in ordering of unneeded supplies from CONUS or denying supply to a customer. In the first instance, because location errors do not affect recorded stock balances; in the second, because a physical search is made for the item whenever a ware-

house refusal occurs. Warehouse refusals have remained consistently within an acceptable ratio (average of 0.80) during the last 3 years.

(4) In addition to action taken to refine procedures for inventorying depot stocks and recording inventory and transaction data, emphasis has been placed on the commodity management of high dollar value items. The Signal Supply Control Agency was reorganized in March 1958 in accordance with commodity manager concepts directed earlier by Department of Army.

k. Department of Army Comments

a. The detailed findings of the General Accounting Office review completed in August 1957 are substantially correct as of that time. However, the manner in which the summary information has been presented unduly magnifies the unfavorable aspects of the operations inspected. It must be realized that the agency was cognizant of many of the deficiencies and was in the process of correcting them. In many instances agency personnel called these deficiencies to the attention of General Accounting Office as examples of our attempts to improve management. Since the time of the review significant improvement has been made by refinements in management techniques, revision in operating procedures, and the technical training of personnel. Uniform procedures relating to processes affecting depot and agency supply records were written and published during 1958. These have formed a basis for improved training and supervision of operating personnel. Continued command emphasis is being directed toward insuring that an optimum degree of record reliability is achieved. Accuracy of records is influenced by introduction to major changes in the supply system and by events requiring reorientation and temporary diversion of effort. Recent examples of these have been assumption of the logistical support of the Southern European Task Force, reorganization and reequipping of 7th Army and other units, support of new weapons systems, support of the radline equipment, support of combat surveillance systems, introduction of MASS, implementation of new Army regulations affecting the supply system, dispersion and relocation of command stocks and operation "Elfmex" for disposal of excess. Continued command emphasis will alleviate but will never entirely eliminate the problems generated by these changes.

b. Future actions.—Continued command emphasis will be directed toward the maintenance of record reliability. Particular attention is being given to the following areas:

(1) Conversion from conventional MAM accounting machines to automatic data-processing equipment.

(2) Continued surveillance over all operating procedures.

(3) Continued training of personnel with special efforts directed toward reorientation required under supply management concepts.

TAB B

1. General Accounting Office allegation—Summary

"Ordering unneeded supplies from the United States" (p. 12, report to the Congress, Jan. 23, 1959).

2. General Accounting Office recommendation

No recommendation included in the report.

3. Facts bearing on the allegation

a. Specific facts covering the allegation:

(1) Of \$2.5 million worth of orders selected for review, orders totaling \$781,022 were not needed.

(2) Nineteen each AN/TCC-23 terminals and 11 each TT-4 were canceled as not required when brought to the attention of agency officials.

b. Discussion.—(1) Reorganization of the Signal Agency in accordance with the concepts of commodity management single recordkeeping enables commodity managers to determine quantitative requirements from accountable records. Each major equipment commodity manager controls a relatively small number of high dollar items with which he is intimately familiar and can accomplish more than mathematical calculations in the art of stock and demand balancing. The AN/TCC-23 canceled on the basis of the General Accounting Office review were subsequently required by 7th Army in substantial numbers and remained on the list of critical items for many months. Commodity managers are now able to exercise control over this type of activity.

(2) Under the new system, when the agency has been directed by CONUS to submit requisitions for new equipments, all units authorized such equipment are requested to submit their requirements. Requisitioning to CONUS is based upon the quantities actually reported by units as required, plus those required for theater stock level.

(3) Customer orders are reviewed regularly for validity by members of the agency liaison teams.

4. Department of Army comments

a. The Signal Agency was persuaded by the General Accounting Office to cancel the requisition to CONUS for 19 each AN/TCO-28 terminals because of the General Accounting Office's allegations that these terminals were being requisitioned needlessly from CONUS. The cancellation proved to be a mistake as it subsequently resulted in a shortage of terminals in the theater. General Accounting Office (during the course of their audit) should not exert influence on supply decisions or actions but should only point out what may appear to require some further analysis or corrective action.

b. Reorganization of the Signal Agency in conference with the provisions of Army Regulation 700-5, and establishment of procedures in keeping with the commodity manager concept, has corrected system deficiencies noted at the time of the General Accounting Office survey.

c. Future action.

Continued evaluation of management progress.

TAB C

1. General Accounting Office allegation, summary

"Unnecessary Reservations of Stock" (p. 15, report to the Congress, Jan. 23, 1959).

2. General Accounting Office recommendation

"We recommend to the Signal Officer, U.S. Army Europe, Signal Officer, Communications Zone, and the Agency that additional controls be instituted to assure that all reservations of stock are properly authorized and supported and that reviews are made timely to determine the continued need for the reservations."

3. Facts bearing on the allegation

a. (1) Review of records (June 30, 1957) supporting reservations of stock on hand valued at \$11.6 million showed that stock valued at \$5.6 million, or almost 50 percent of the value of the stocks reviewed, was reserved improperly. In addition, certain orders placed for material valued at \$956,832 were also improperly reserved.

(2) Of 20 line items which had been reserved pending firm requirements, 85 percent were not required.

(3) Of 24 line items reserved for communications project, 17.3 percent were no longer valid, and 58 percent on order were not valid.

b. Discussion.—(1) In February 1957, the Signal Agency reserved certain high dollar value items which had been determined candidates for excess action by mechanical computation. It was determined that a closer manual review should be made on these items to include a review of projected unit reorganizations. Although over 50 percent of the stocks were reserved properly, it appeared in the best interests of the Government to review all reserved stocks on an individual basis as part of a continuous and recurring program in which all assets and requirement are considered. Reservations based on the best available information of the moment are nevertheless susceptible to change as overall tactical considerations are reviewed. Maximum utilization has been made of stocks on hand in the theater during 1957 and 1958 as shipments from depots exceeded receipts from continental United States appreciably during both years.

(2) Control of reservation stocks by commodity managers rather than functional control previously exercised has resulted in a much more satisfactory system. Current procedures require that the commodity manager justify each item in reservation codes.

(3) Items reserved for class IV communication projects are reviewed regularly with representatives of the U.S. Army Europe Signal Officer. Items no longer authorized by bills of material are returned to issue stocks.

4. Department of Army comments

a. Findings cited in the report were based upon research approximately 18 months prior to submission of the report with no recognition of subsequent status and procedural changes.

b. Regular and special reports are being submitted to the custodian of items reserved for communications projects.

c. Requisitioning of new equipments from CONUS is being made on the basis of determined customer requirements rather than book-allowance computations, thus lessening the possibility of improper reservations at a later date.

d. Future action.

Continued evaluation of management progress.

(Tab D)

1. General Accounting Office allegations, summary

a. "Screening of unfilled customers' requisitions was ineffective" (p. 10, report to the Congress, January 23, 1950).

b. "Customers orders were not released timely" (p. 24, report to the Congress, January 23, 1950).

2. General Accounting Office recommendations

a. *Allegation 1a.*—"We recommend that there be more effective coordination between the Agency and its customers in regard to the current status of unfilled requisitions."

b. *Allegation 1b.*—"We recommend that:

(1) Additional internal controls and checks be implemented to keep errors to a minimum.

(2) More effective procedures be instituted covering coordination in processing customer's requisitions, receipts, and shipments between the Agency and the depots as well as intra-Agency operating units."

3. Facts bearing on the allegations

a. (1) In the test of 28 unfilled requisitions it was determined that 8 of them were no longer required by the customer.

(2) In the test of 53 line items from unfilled customer requisitions, needed stock was on hand to fill either part or all of the requisitions on 17 of the line items. Stocks had been on hand at the depots to meet most of these 17 customer requirements for several weeks.

b. *Discussion.*—(1) At the time of the survey, dues-out records were being transferred from the depots to the Supply Control Agency. Prior to this transfer, control of dues-out was exercised at individual depots which had responsibility for release of dues-out upon receipt of material.

(2) During the period of the General Accounting Office survey the following procedural changes were planned and subsequently put into effect.

(a) Requisitions for all items are submitted directly to the Signal Supply Agency. Dues-out are established, controlled, and releases made from the Agency. This insures that a release will be made on a priority basis if the item is received in any depot.

(b) Due-out records are initiated by the commodity manager and maintained in his working file and releases are made by him. In addition, the same element now receives the requisition, establishes dues-out, effects replenishment from CONUS and releases dues-out.

(c) Lists of dues-out over 90 days old are prepared for each major customer who is requested to review for possible cancellation, and advise of items already received or no longer required.

4. Department of Army comments

a. In accordance with Department of Army directives the following actions were taken by the Agency:

(1) Coordination has been established with customers with regard to current status of requisitions by weekly transaction listings and liaison personnel.

(2) Necessary internal checks and controls have been established.

b. *Future actions.*—Continued training of personnel and emphasis on supervision to insure compliance with established uniform procedures.

TAB E

1. *General Accounting Office allegation, summary*

"Stock levels were excessive" (p. 21, report to the Congress, January 23, 1959).

2. *General Accounting Office recommendation*

None.

3. *Facts bearing on the allegation*

a. (1) Of 82 levels reviewed, 62.2 percent were proper levels, 37.8 percent were improper levels.

(2) Vouchers establishing levels had not been processed into records used by personnel who initiate supply actions.

(3) Levels previously established should have been adjusted based on current demand data.

b. *Discussion.*—(1) Included in the 31 line items (37.8 percent) reported as having "improper levels" were 18 line items (22 percent) reported as "levels established and not recorded." The levels on these items were correctly computed and this was not questioned in the report. There was a delay in processing of the level changes to the stock status records, a deviation from an established administrative procedure.

(2) Of the remaining 13 line items (15.8 percent) reported as having "improper levels," 12 line items had levels too high and 1 line item had a level too low.

(3) More detailed and exacting procedures have been developed and implemented by the Signal Agency, governing, establishing, analyzing and adjusting of stock levels. Commodity managers accomplish manual analysis of individual high dollar value items.

4. *Department of Army comments*

a. Deficiencies reported by General Accounting Office in regard to excessive stock levels were primarily attributed to delays in administrative processing of adjustments to stock records. The need for more timely review of levels on high dollar items was also indicated. Related procedures in line with the Army commodity management concept were in process of implementation and were put into effect.

b. *Future action.*—No uncompleted action.

TAB F

1. *General Accounting Office allegation, summary*

"Stock on hand was not being used to fill mobilization reserve requirements," (p. 4, report to the Congress, January 23, 1959).

2. *General Accounting Office recommendation*

"In order to assure that material is not ordered for mobilization reserve requirements which could be filled from stocks on hand, we recommend that procedures be established at the Signal Supply Control Agency for:

"a. Reviewing the records to determine whether stocks in excess of current requirements could be transferred to fill mobilization requirements and,

"b. Screening outstanding orders placed to fill mobilization requirements against stocks on hand."

3. *Facts bearing on the allegation*

a. Review of high-dollar-value line items included some items for which there was a mobilization reserve requirement. For 13 of the items tested, sufficient stock was on hand to either completely or partially satisfy the requirement.

b. *Discussion.*—(1) At the time of the General Accounting Office survey, the control of mobilization reserve materiel requirements stocks, determination of requirements, initiation of requisitions, and other actions necessary to its reconstitution, was the responsibility of a special projects section removed from the normal supply management activity. Actions initiated by the project officer were normally based on periodic stock status listings which did not reflect most current information.

(2) As a result of the reorganization of the Signal Agency in March 1958, mobilization reserve materiel requirements records have been merged in the stock status file with other accountable records enabling simultaneous consideration of all requirements and all assets in the course of any supply control review.

Necessary adjustments between reserve requirements, operating stocks, excesses, or on order become apparent during such a review. Administrative segregation by account codes simplifies control not only of the main categories of the mobilization reserve materiel requirements, but for all sections thereof, including stocks stored at dispersed locations.

(3) Supply control procedures provide for screening of all theater requirements and assets prior to initiating excess action or replenishment.

4. Department of Army comments

a. The report covered findings approximately 1 year prior to its submission at which time reservation of stock in the mobilization reserve materiel requirements was controlled as a separate project utilizing noncurrent availability information. This situation has been corrected by procedures developed in keeping with the commodity manager concept, which was in the planning stage prior to the inspection.

b. Current procedures provide for a complete review of all assets and requirements prior to any excess or replenishment action.

c. Future action. No uncompleted action.

TAB G

1. General Accounting Office allegation, summary

"Lack of adequate storage plans" (page 24, report to the Congress, January 23, 1959).

2. General Accounting Office recommendation

"As space becomes available, we recommend that the depots at Pirmasens and Verdun establish storage plans providing for the segregation of active and inactive stock so that the depots will be able to perform their prescribed mission in a more efficient and economical manner. Because the Saumur stocks will soon be transferred to new warehouses at Montreuil-Bellay, France, we recommend that immediate action be taken and proper coordination be effected between depot personnel and communications zone to develop a storage plan prior to moving the stocks to the new depot, which would provide, among other things, for the segregation of active and inactive stock. A storage plan will facilitate orderly transfer of stocks with a minimum of materiel handling and enable the new depot to begin operations based on proper warehousing principles."

3. Facts bearing on the allegation

(a) (1) The report indicates that there were no adequate formal storage plans in existence at any one of the three depots.

(2) In the opinion of the survey team, storage plans should provide for physical segregation of active and inactive stocks.

(b) *Discussion.*—(1) Transfer of Saumur stocks from caves to new warehouses at Montreuil-Bellay has been completed. A storage plan was developed with the assistance of representatives from the Office of the Chief Signal Officer, Department of the Army, and locations predetermined prior to this move. Redistribution of stocks from Pirmasens and Verdun was coordinated so as to provide Saumur with a schedule of expected receipts, permitting them to predetermine numbers of containers, weight and cube. Planographs were utilized by the storage officer for appropriate preplanning.

(2) Formal storage plans are being followed at all three depots. Reduction of Signal inventories from \$108 million in December 1957 to \$86.1 million in December 1958, and acquisition of new facilities at Montreuil-Bellay has facilitated effective utilization of formal storage plans.

(3) The communications zone supply and distributions operation plan (SADOP) provides for redistribution and buildup of stocks to prescribed levels in all communications zone depots to achieve economy of operation in peacetime and establishment of a favorable mobilization position. Coordination, reporting, and followup are exercised at staff, agency, and depot levels to insure continued accomplishment.

(4) Excess stock consigned to property disposal officers as a result of excess determinations is physically segregated by condition at the time it is transferred to the property disposal officer. Due to the relatively long interval of time between the initial determination that item quantities are excess and their final disposition, changes in stock position and requirements would require many physical movements of stock instead of a simple paper transaction if these

stocks were to be segregated prior to disposition. Except as noted above and other special cases, such as the modern Army supply system stockage list items, the recommendations to segregate active and inactive items is not concurred in.

(5) In the introductory portion of the report entitled "highlights" (p. 4), it is stated that storage plans did not exist. This statement is not borne out in the body of the report and does not represent the facts as of the time of the survey. Storage plans and planographs were being used at the Pirmasens and Verdun depots.

4. Department of Army comments

(a) Formal storage plans are effectively being utilized at all depots.

(b) Physical segregation of the modern Army supply system stockage list items, items shipped to property disposal, items in nonissuable condition, and items for certain special projects, is being exercised. Segregation of all stocks based on the criteria of activity is not considered feasible nor desirable.

(c) Future action. No uncompleted action.

TAB H

1. General Accounting Office allegation, summary

"Reports on excess not prepared or circularized" (p. 25, report to the Congress, January 28, 1959).

2. General Accounting Office recommendation

"We recommend that in order to correct this condition, and effectively control property in excess channels, the agency establish a separate card file for excess property line items and institute procedures for its periodic review."

3. Facts bearing on the allegation

(a) Review of excess property account for high-dollar-value line items disclosed 4 line items out of 11 reviewed valued at \$41,000, which were recorded as excess but on which no report has been prepared or circularized. Two of the line items had been recorded in the excess property account for a period of over 4 months. Another item did not meet the criteria for reportable excesses and should have been turned over to the appropriate property disposal officer for disposal action.

(b) Discussion.—(1) At the time of the General Accounting Office review, excess reporting was accomplished along functional lines. Commodity managers are now responsible for determining, reporting, and followup on excess items within their particular commodity group. In addition, a separate card file has been established for excess property line items and is reviewed periodically.

(2) Balances reported as excess or ordered shipped to property disposal are considered as assets by each commodity manager until final disposal is effected.

(3) Regulations, revised in 1957, governing the reporting of excess property require the Agency to furnish by electronic accounting machine method to the U.S. Army Signal Supply Agency, Philadelphia, Pa., a listing of all major items valued \$5,000 and over and all repair parts and supply items valued in excess of \$100. On June 14, 1957, 10,000 items of repair parts were reported to continental United States in accordance with this procedure. This resulted in a subsequent savings to the Government of \$800,000 as a result of the shipment of 1,500 of these items to continental United States. During 1958, \$15.6 million of excess stock was returned to continental United States as a result of all screening actions.

4. Department of Army comments

(a) Maintenance of card files reflecting all excess property in hands of property disposal officers until final disposal is being utilized.

(b) Reorganization of the Signal Agency under the commodity manager concept provides for close supervision of the screening, reporting, circularizing, disposal and recovery when required of excess stocks and will reduce erroneous actions as reported by the General Accounting Office.

(c) Future action. No uncompleted action.

CONTRACT TERMS

The CHAIRMAN. Now we come to contract terms. The Comptroller General said that frequent failures on the part of both prime contractors and agency officials to get accurate cost data to justify the price quoted by the subcontractor, that in many cases the prime contractors merely took the estimates of the subcontractor without justifying them and that they were made in advance of any experience, and that these excessive subcontract cost estimates resulted in excessive prime contract prices and unwarranted profit to the prime contractor since the prime contractor generally also receives profit on the subcontractor's charges and in situations of this nature the prime contractor is rewarded for his inefficiency.

Mr. McGuire. I think the conclusion that the Comptroller General took is correct in this respect.

It is regrettable that this situation was allowed to happen.

I think the Comptroller General also pointed out, if I understand his remarks, that in this particular field of procurement that we have worked closely with him and tightened this thing up.

I think the cases referred to, and I do not mean this as a defense, are cases of the past, earlier than 1958. Some of these contracts are continuing so I am not going to say this could not be happening today. I think we send a copy of every contract we make to the Comptroller General, as you know.

He has investigated a large number of contracts in the last 2 years. He has about a hundred men working on it. I think he has reported to Congress some 35 of these contracts. These have been very helpful where he has pointed out necessary corrections.

What I am trying to say is that I do not agree that this is indicative of the way we do contracting in every contract.

Senator O'MAHONEY. What authority do you have to tighten them up?

Mr. McGuire. In this field, I have all the authority anybody could ask for. There is no question of lack of authority.

The Secretary of Defense has delegated in me the authority to issue ASPR. This is one of the very clean-cut delegations of authority at my level. I have no argument from the services on that. They accept it. Those of us who have been in the ASPR field have a good working relationship here.

One of the things we did as a result of this business of costs that were part of cost estimates not being current, is to make it mandatory that the contractor certify they are current.

Now, he is in a very embarrassing position if they are not, because he is using this certification as part of the entering of a Government contract.

My position on this matter is that some of these contractors by the very magnitude of the procurement we are involved in are in reality agents of the Government and this cannot be a game of hide and seek.

This negotiation must be a mutually helpful one on both sides.

We don't want the contractor to lose money. We don't want him to make too much, either.

Mr. BANNERMAN. On this subject of contracting you have just asked about, we have recently issued—and I think the General Accounting Office was helpful to us in getting this out—a rather substantial revision to our Armed Services Procurement Regulation requiring a far greater review and expanded cost analysis on subcontracting.

This was done on 1 October 1959.

Mr. McGUIRE. We will be glad to supply you a copy of this although I think maybe your staff has it.

(See pp. 357-361.)

Mr. BANNERMAN. Actually, Mr. Campbell commented on this favorably in his report yesterday.

INSURANCE ON GOVERNMENT-OWNED PROPERTY

The CHAIRMAN. Now, the Comptroller General says that in some cases you require contractors using Government-owned property to carry insurance on that Government-owned property which was then charged in the contract price although the general policy throughout the Government is one of self-insurance.

Mr. McGUIRE. We issued a regulation on this on the 18th of September, 1958, through ASPR, and I believe this was as a result of some work with the Comptroller General.

Details of this I will let Mr. Bannerman explain but in essence it is this:

If we have a Government-owned facility and 75 percent of the work in this facility is for the Government, we become the self-insurers.

If the reverse position is true, the manufacturer becomes the insurer.

Mr. BANNERMAN. Actually, the cases involved are very old contracts long before this policy evolved.

RENT FREE USE OF GOVERNMENT PROPERTY

The CHAIRMAN. Now, the Comptroller General charges that in certain cases contractors use Government-owned facilities without paying rent for them. In one case this went on for 8 years.

What is the reply to that?

Mr. BANNERMAN. Since June of 1959, we have had the fixed policy in the Department of Defense not to lease industrial facilities for commercial use without the payment of rent.

As you pointed out, this contract we are talking about goes clear back to Korean war days.

I think there was in that case an agreement that rent was due, but there was a failure to administer the contract in such a way as to collect it. The amount due was in dispute.

The CHAIRMAN. Is this a unique case?

Mr. BANNERMAN. It was unique, Mr. Chairman.

Mr. McGUIRE. I don't know the details, but I would prefer to say this particular case was unique. There may be others in the same area that might have a bearing on this.

Mr. BANNERMAN. This was the only one of this kind reported by Mr. Campbell.

WAREHOUSE SPACE RENTAL RATES

The CHAIRMAN. May I ask this: You have warehouse facilities. Do you charge the private firms to whom you rent out warehousing facilities the same rate that you charge General Services Administration for its stockpile and other items.

Mr. RILEY. I am pretty sure that we have a common reimbursable policy whether we rent to private industry or within the military service.

It is the going commercial rate in that particular area.

Mr. McGUIRE. Are you talking about the going rate of commercial enterprise in the area? Is this going rate higher than the standard Government interchange rate? Do we charge the commercial people more or the same price?

Mr. CAPUTO. More.

For example, in the New York City area—

The CHAIRMAN. I did not catch the reply.

Mr. CAPUTO. For example, in the New York City area warehouse space goes about \$1.20 a square foot. If we have space available to rent commercially we get the \$1.20 rate even if it cost the Government 35 cents.

The CHAIRMAN. What would your rates be to General Services Administration?

Mr. CAPUTO. To General Services Administration it is 35 cents. We have a prescribed rate to General Services Administration of 35 cents.

The CHAIRMAN. Thank you.

RECOMMENDATION FOR A SINGLE AUDIT AGENCY

Representative CURTIS. On this subject that the Senator is pursuing about GAO's comments there is one I want to pick up. I believe last year the Assistant Secretary of Defense, because of certain GAO criticism, appointed representatives from three of the country's largest accounting firms to survey the internal audit function carried on by the Army, Navy, and Air Force, and they made their recommendations on November 28, which was that there should be a single auditing agency.

As far as the committee has been able to determine the Department of Defense has not yet taken an official position on this recommendation.

I wonder what the status is.

Mr. McGUIRE. I cannot speak with authority. I think you know, Mr. Congressman, it was in Mr. McNeil's area. I am very anxious also—

Representative CURTIS. Wait. Let me get that. That was in Mr. McNeil's area. How is that related? How do you relate your area and his area in auditing?

Mr. McGUIRE. In the auditing area we get auditing reports through the services.

The contract audit areas have always been within Mr. McNeil's shop.

Now, I understand about this report. I don't have the responsibility for this function. I have an interest in it.

I have not heard the final conclusion on this matter. We have a man from his shop here as a backup witness if you care to call on him.

Representative CURTIS. Let me ask this as far as your shop is concerned. Would this not help your organization if this would get you better information and material?

Mr. McGUIRE. There are two sides to this question. At the moment we are getting good audit service. That does not mean it cannot be improved.

There is a long story. We get it in business—the procurement officer versus the audit officer. Who is the final determiner of different opinions?

With a standard set of cost principles out, I have a feeling that there is a possibility we might get some more benefits out of a single audit agency now. It is the feeling on my part and I must be fair about it. I cannot in good sense justify this feeling, but I intend to keep raising the possibilities of it because I think it is worthwhile exploring.

I am not sure we are ready for it yet, but it is certainly something—

DELAY IN MAKING DECISIONS

Representative CURTIS. It seems to me that the GAO criticism was well founded and certainly the three top auditing firms of this country that were used concluded that way.

This is dated November 19, 1958. That is the thing that is so disturbing to me. Over 14 months have elapsed and no action.

Mr. McGUIRE. When I return to the department I shall be glad to give your question to Mr. Lincoln who has now succeeded Mr. McNeil and ask him to supply an answer for the record. I am sure that is one form of pressure.

(The material referred to follows:)

ASSISTANT SECRETARY OF DEFENSE,
COMPTROLLER,
Washington, D.C., February 24, 1960.

HON. PAUL H. DOUGLAS,
Chairman of the Subcommittee on Defense Procurement,
Joint Economic Committee, U.S. Senate.

DEAR MR. CHAIRMAN: When Mr. McGuire testified before the Joint Economic Committee on January 29, 1960, he was asked the status of a recommendation by outside consultants to establish a single auditing agency. This question was referred to the Assistant Secretary of Defense (Comptroller) for response.

This recommendation has been the subject of considerable study. There are serious disadvantages as well as advantages which might follow adoption of the recommendation. Although no final determination has been made of the Department of Defense official position on this recommendation, there is attached hereto a statement concerning the problems related to the recommendation and the advantages and disadvantages which might follow.

Sincerely,

JOHN M. SPRAGUE,
Deputy Assistant Secretary of Defense.

STATUS OF RECOMMENDATION FOR A SINGLE CONTRACT-AUDIT AGENCY

This is an answer to a question by a member of the Joint Economic Committee, Representative Curtis, with respect to the status of the Department of Defense concerning the recommendation made by outside accountant-consultants that there should be a single contract audit agency rather than separate contract

audit functions in the three military departments. This recommendation did not go so far as to propose merger of all audit functions, as suggested by the question asked.

By contract auditing is meant the audit service provided to procurement officials of the military departments in connection with the pricing of negotiated fixed-price contracts, as well as in allowance of costs under cost-reimbursement-type contracts. Auditing of contractors' records is performed with respect to validity of their cost representations. A large proportion of negotiated fixed-price contracts contain price revision clauses. These contracts require examination of contractors' costs—not only at the outset as a basis for establishment of initial prices and cost targets, but also upon completion of contracts, or after a substantial portion of the contracts have been completed when price redetermination is required during the course of performance.

Contract auditing is only a part of the total audit function performed by a central audit organization in each of the three military departments. The other audit function is internal auditing, or the internal review and examination of operations within the military departments from the standpoint of their financial and business aspects. This is in contrast to the type of examinations required by the Inspector General organization covering the military aspects of operations. Internal auditing is a kind of policing function in contrast to the service function of contract auditing; this distinction is important in evaluating the proposal for centralization of the contract-audit service in a single agency under the Office of the Secretary of Defense remote from the procurement officials who are located in the bureaus of the Navy, technical services of the Army, and the procurement offices of the Air Materiel Command.

The outside consultants who made the recommendation for centralization of contract auditing were retained by the Assistant Secretary of Defense (Comptroller) to review the military departments' contract-audit operations, to evaluate quality of audits, to indicate differences in approach, and to make suggestions for improvement.

The recommendation submitted for centralization has merit from the standpoint of the professional character of the contract-audit work performed, but, in the opinion of this office, it was not based upon full appreciation of the necessity for performing an adequate procurement service by having a contract auditor who reviews a contractor's price proposal, cost analysis, or claim for cost allowances, act as a service member of a team in which the procurement officer is the chief and responsible for making determinations, including the establishment of prices by negotiation with the contractors.

The Department of Defense has not yet taken an official position on the recommendation for centralization. However, the staff of the Assistant Secretary of Defense (Comptroller) has studied the recommendation, especially with respect to its impact upon the three services in the northeastern section of the United States from the standpoint of costs that might be saved by merger of the three contract audit agencies. Moreover, there have been discussions with the principal officers of the audit agencies and procurement officials in the three military departments. As a result of these studies and discussions certain conclusions have been reached and recommendations made to the Assistant Secretary of Defense (Comptroller) by his principal advisers. The principal conclusions and recommendations may be summarized as follows:

(1) There is no question but that a single contract-audit organization might be able to do a better job professionally than the three separate audit agencies. It would be possible to have better training and to indoctrinate personnel in the field so that there would be a single approach to all audit problems. However, in this respect the present situation should not be exaggerated. For example, through the efforts of the Office of the Assistant Secretary of Defense (Comptroller) there exists one "Contract Audit Manual" and a series of joint procedures letters issued by the Chiefs of the three audit agencies which go almost all the way toward establishment of uniform audit procedures.

(2) A major problem in nonuniformity of procedures is the existence of different procurement procedures in the three military departments, and this could not be corrected through the creation of a single contract-audit agency. Such an agency would be required to observe the individual procedures of each military department and in some cases each separate technical service of the Army or bureau of the Navy, in the same manner as required at present where one contract auditor in a plant services procurement officials of all three military departments.

While much has been accomplished in this direction, further progress is required through joint efforts in developing and establishing uniform procurement procedures under the leadership of the Assistant Secretary of Defense (Supply and Logistics), especially through the "Armed Services Procurement Regulations." An important recent step was the issuance of a comprehensive regulation covering contract costs for use by procurement officers, contract auditors, and contractors in pricing fixed-price contracts as well as cost reimbursement contracts.

(3) The creation of a single contract audit agency would not result in savings in operating expenses of the audit organization. There would be just as many contract auditors required as we now have. There would be no elimination of duplication of audit effort in contractors' plants, because we already have a system whereby there is a single-service assignment of audit responsibility in plants producing under contracts for two or more military departments. There would be little savings through rearrangement of district or regional supervisory offices, because these offices would still be required for the internal-audit operations of the military departments. This has been determined through study of the northeast section of the United States.

(4) Most important, however, is the evaluation of the impact of a single contract-audit agency upon the procurement activities of the three military departments. It is believed that the result of centralization would be disturbance of the close relations which have been built up with procurement officials through long efforts by providing audit service to them in their own department under the team approach. It is true that the procurement officers in each military department are serviced by contractors who perform contracts for two or more military departments (the single service audit assignment). It is understood this arrangement is not fully satisfactory although it is accepted as being unavoidable. It appears that the problems here are both from the standpoint of relations between contract auditors and procurement officials and the difficulties of obtaining adequate service by an outside agency with respect to procurement procedures which are peculiar to the military departments concerned. Good relations between contract auditors and procurement officials should mean better contract pricing with savings to the Government. Therefore, the disadvantages from poor relationships would make it undesirable to have a single contract-audit agency. If at some time in the future there is created a single supply or procurement organization to service all three military departments, it would be appropriate to have a single contract-audit agency parallel to this centralization of procurement.

The study by the outside consultants has resulted in identification of contract-audit problems, especially differences of approach by one contract audit agency as compared with another, and we believe it will be possible to achieve further improved results in uniform procedures through leadership and guidance from the Office of Assistant Secretary of Defense (Comptroller) with the cooperation of the contract-audit agencies of the three military departments. It is proposed to direct our efforts to achievement of this objective. We shall also continue to work with the Office of Assistant Secretary of Defense (Supply and Logistics) in their efforts to unify and simplify procurement procedures of the military departments.

Representative CURTIS. What we are doing here is a form of pressure. Also, in pursuing it I am trying to figure out where pressure might come within the organization to resist.

If your shop could use or gain a benefit to a large degree from better auditing procedures such as recommended here, then I think your shop should help put on some of that pressure.

Mr. MCGUIRE. In fairness to you in answering it and to the other people who are charged with the responsibility, I will say that if the cost principles had been out for a year and we had experience on them, I think I would be in a better position to say whether a single audit agency would be desirable. I think when these are out and they are used and we have ground rules, to get one audit agency ought to mean something to industry. We are talking to the same fellow all the time and we are looking at the same kind of report. This might be helpful.

There may be other internal reasons I am not aware of for having audit agencies in each military department. These audit agencies do more than just figure, as you well know.

COMPETITION IN RESEARCH AND DEVELOPMENT

The CHAIRMAN. If I may ask one more question on procurement and contracts, the Comptroller General in summarizing his investigation says:

There is a need to obtain greater competition in awarding contracts to supply the needs of the Department of Defense. In our opinion effective competition gives greater assurance that the Government will receive an effective and durable product in a reasonable period of time at the lowest price. Competition in the design, research and development stages should be maintained, competitive forces up to the production stage, which would place the Government in the advantageous position of being able to select the most satisfactory product available to satisfy its needs.

Now, do you agree that there should be greater competition of this type?

Mr. McGUIRE. I do not, Senator. I am not taking a negative position when I say that. I think I mentioned earlier that we send a copy of every contract to the Comptroller General. I am informed that we have never had a contract come back to us with a statement that this should have been placed by advertised bidding and not negotiation.

I don't know of any such record that we have.

Mr. BANNERMAN. I don't know of a case.

Representative CURTIS. Would that be the kind of thing that the Comptroller General would say?

Mr. BANNERMAN. He would be examining the contract. It would seem to me that might be the kind of thing he would have an interest in.

Now, this is not said defensively.

Representative CURTIS. I appreciate that.

I am just trying to figure out whether the Comptroller General would normally make a criticism of that nature.

The CHAIRMAN. That is just the point. How many contracts do you let in the course of a year, several million?

Mr. BANNERMAN. That is correct.

The CHAIRMAN. The Comptroller General could sample probably only one in a thousand or one in two thousand. How does the fact that the Comptroller General has not protested your action in specific cases mean that your action is correct?

Mr. McGUIRE. I am not using it as justification that our action is correct. I try to give you my judgment on it.

I am pointing out, however, that in the sampling process, and recognizing that hindsight might be sharper than foresight, I don't know of any case where we have been criticized on this point.

Now, I might be inviting quite a number of comments in this field.

The CHAIRMAN. What you are saying in your very able statement is that you find nothing alarming in the fact that 86 percent of the dollar volume of the contracts are negotiated rather than competitively advertised.

This is what alarms some of us.

Mr. McGUIRE. Maybe I am immune to this and I had better put myself in the right perspective.

The CHAIRMAN. You are supersensitive.

Mr. McGUIRE. You mentioned that I was in Montgomery Ward prior to going to Government. I also was head of a large retail combination, Allied Stores. I don't know of any contract we contracted for by formal advertising.

I used to be the largest blanket buyer. We negotiated much the same as the techniques we used in World War II. As a matter of fact, I was one of the first negotiators in the Government in the Navy during World War II; I helped develop that system.

I may be immune to it from exposure, but there are some of these things I just don't think you can advertise.

The CHAIRMAN. Let me say if the mayor of any American city were to take the witness stand and to say that 87 percent of the dollar volume of his contracts were negotiated and only 13 percent subject to competitive bidding, there would be such a popular storm that he would be ousted within a few months.

Mr. McGUIRE. I think there would be and I think it would be proper, Senator. But I would point out to you that in his procurement department he does not buy missiles and he does not buy an early warning system.

This is what gets the dollars, these are the costly programs. He may advertise on his hospitals or for spot products.

The CHAIRMAN. I think I am correct in saying that 90 percent of the contracts are negotiated.

Mr. BANNERMAN. Senator, that is why we explained that over 82 percent of that 90 percent, which is almost the vast preponderance of them, was the small purchase under \$2,500. So this really is a fictitious figure in that sense.

Senator JAVITS. Mr. Secretary, I think that this is the nub of the whole picture.

I would like to ask you this question. If it is true, as you say, and I think you are right, that, because of design problems you cannot advertise, your weapons would be obsolescent by the time you got it all standardized and everybody understood it, and so on, nevertheless we are entitled to say you must give us a reasonable facsimile of competition. What is your substitute for this traditional way of avoiding corruption in Government, not just corruption of the crude kind but kind of corruption whether you have a friend or you like a district or you come from a place or you used to work for a company or whatever it may be.

I think that is what we are deeply interested in. Certainly we understand it, we are no children here, and we were not born yesterday, either. We know that you cannot advertise to have competitors for an enormously complicated missile. So we say to you, sir, there must be some other technique in Government.

Unhappily, as far as the public is concerned, they just do not know the way you do it.

Mr. McGUIRE. I think there is no question about this, Senator. One of the bad points is our public relations and the lack of understanding of what this is.

What I am hopeful to accomplish, very candidly, by the statements we are getting ready for both the House committee and the Thurmond committee, is such a complete explanation of this in simple terms that people can understand what these problems are.

I agree with you that there is a lot of hazziness in here that has to be explained.

Senator JAVITS. Not only the problems, you must fix your attention on your solution to the problem and satisfy people like men who have spent their lifetime, like Senator Douglas, in eliminating municipal corruption, that you are doing everything you can, within the limits of human imperfection, to give us as close a guarantee against any kind of corruption, defining the world as I used it before, not in its crude sense, as you can within the limits of your problem. That, I think, is the real issue. We know you have a problem.

Mr. BANNERMAN. I would like to take a crack at that question, if I may, Senator. The fact of the matter is, as we have explained before, among our negotiated procurements, a pretty substantial percentage of them, both in numbers and dollarwise, are competitive, competitive in the same sense that advertised procurements are competitive, but we need the ability to negotiate to be sure we are getting a suitable product.

On these competitive negotiations, any contractor who has submitted a proposal can, and by our regulations does, get a complete explanation of the award, including the price at which the award was made if he requests it. The fact that such a negotiation is going to be undertaken is publicized through Department of Commerce channels in advance of the negotiation. The award that is made is subsequently also publicized. It is open to the public.

The contracts themselves, as Mr. McGuire said, are sent to the GAO and a portion of them are audited on a spot-check basis, by the GAO. Those which involve cost reimbursement are audited during the payment period by our own auditors—an independent organization apart from the contracting organization. Those contracts which are not awarded on a price competition basis because of the design or research and development aspects of them, are also published when the award is made.

The contract terms and conditions are public information, subject only sometimes to security qualifications on the specifications.

There is no attempt whatsoever at secrecy in this field.

We have done everything we can through our regulations to require openness and publicity.

As Mr. McGuire says, we will try to make a clear-cut, thoroughgoing written statement of this that we can present to you and make very clear for the record.

Mr. MCGUIRE. Senator, not as an argumentative point at all—

Senator JAVITS. You may even do that.

Mr. MCGUIRE. Thank you.

Senator JAVITS. I would be delighted.

Mr. MCGUIRE. But I have had a little experience with advertised bidding. As a matter of fact, when I came down here during World War II, we had some advertised bidding and there were a substantial number of cases that I participated in where we bought cheaper by negotiations than by advertising.

I would point out to you that when we started the negotiation, the quotation began with the last advertised price.

Senator JAVITS. Let me point something out to you.

You are a businessman and I am not inexperienced in that area myself, although I am a lawyer. When you did your buying you were facing the competition, as we say, of Gimbel's and Macy's, and your boss can find out mighty quick whether you are buying well or not. It was your head, not the contractor's that would roll if the negotiation had not panned out better than the advertising.

Now, that is not true here. It is not true at all. It is not the same.

Here you have a situation in which both the public and other contractors have to be assured as to what happened. About the other contractors, which your associate has just been explaining, you know we have an expression about lawyers, you can go down to the tavern and curse the court if the decision was against you, but you never let the court hear it because you are going to be back there tomorrow.

That is the situation of your contractors.

We are not children about that, either. It is a mighty rare contractor who will argue with the Defense Department because he expects to live another day. That is the situation. That is what we want to know about it.

Mr. BANNERMAN. You mentioned that in these other commercial organizations, the boss has a good view of what is going on.

Senator JAVITS. No, I said it was competition that gave you the clue.

Mr. McGUIRE. Obviously, if you buy your goods wrong and you have to price them higher you are out of competition. There is no mystery about that.

Representative CURTIS. That is the whole thing.

What the Senator is saying, and I do not need to repeat it because he said it better than I could, but it is so basic that I think it deserves repetition.

There is no automatic system in the Government. The substitute for the competitive system in the Government, of course, is our preparation of budgets and screening of budgets and so forth. That is hardly as adequate a method of doing it.

I might say on this advertised bidding, one thing that deserves some explanation, and certainly is an indication that advertised bidding is a better system in the Government, is the percentage of participation or gaining of contracts by small business as a percentage of advertised bids goes up in relation to negotiated bids. As the percentage of negotiated bids increases, the participation of small business goes down.

Mr. McGUIRE. There is a partial answer to that, too, Mr. Congressman. That is as we bulk this business where small business can participate, these commodities are more susceptible to advertising.

Representative CURTIS. That may be, and a great deal of these kinds of things, sure, advertised bidding depends on good specifications, and, boy, I have seen some specifications rigged, too. There are ways people can do these things. But the process of advertising bidding I am satisfied in the Government sector takes care of some of these problems which we are worried about on being sure we are getting the most for our money.

Now, in this statement that you are going to give, in this whole area, and I have not dwelled on it because you said you were going to discuss it, but I want to be sure it is in here, it is not the prime who is the sole consideration, it is the subcontractor and the sub-sub-contractor.

One of the things that the Small Business Committee is concerned about is this mother sow process where one big prime gets its favorite little piglets and that is a closed family party that keeps on going.

So in this area, the prime and the design itself may be something that has to be, as I say, negotiated.

I certainly think, in the military in particular, you are going to need, as you say, more negotiated bidding than you would otherwise in other procurement agencies.

But, again getting back to our atomic submarine, there are so many component parts of that, and I would say it is more than, a good deal more than the parts that have to be negotiated, that can be done through advertising bid because there are specifications, the radios, the furniture that goes into it, and things of that nature.

Mr. McGRURE. Valves and that type of thing, cooking equipment.

Representative CURTIS. Yes. So, in your presentation, I presume you will break it down and not just stop at the prime.

Mr. McGRURE. I intend to and I think, Mr. Curtis, that in the presentation that we have been talking about, the 200, we will really cover this thing and answer every question on it.

Representative CURTIS. I used this homely illustration of a mother sow and her piglets but you are familiar, are you not, with that problem? At least the Small Business Committee and others have seen where there is the tendency or there can exist a situation where a prime contractor gathers around him a selected group of subs that he wants to deal with and you get a-----

Mr. McGRURE. A very rigid complex.

Representative CURTIS. Yes, you certainly do. I am concerned from an economic standpoint with what it does to our competitive system.

NEW REGULATIONS ON SUBCONTRACTING POLICIES

Mr. BANNERMAN. Mr. Curtis, we have been worried about that, of course, just as the Small Business Committee was. As a result of our efforts we have issued, as I explained a short while ago, a completely new section of our procurement regulations covering subcontracting policies and review.

This section requires that contracting officers interest themselves in the course of both making the contract and administering it, in the extent of competition, outside competition, obtained by prime contractors and assurance that through the attaining of competition that the best possible price is obtained by the Government.

I have a copy of this, if you would be interested in having it for the record.

Representative CURTIS. Is it a regulation?

Mr. BANNERMAN. It is a part of the armed service procurement regulations covering contracting policies of the Department.

(The document referred to follows:)

PART B SUBCONTRACTING POLICIES AND PROCEDURES

3 000 Scope of PART. This Part sets forth policies and procedures for the evaluation, review, and approval of contractors' "make or buy" programs, purchasing systems, and proposed subcontracts.

3 001 GENERAL.

(a) Information as to the contractor's "make or buy" program, purchasing system, and proposed subcontracts may be important to (I) negotiation of reasonable contract prices (see ASPR 3 807.5 and 3 808.2(b)), (II) assurance of satisfactory contract performance, or (III) carrying out Government policies regarding small business (ASPR 1 707.1), labor surplus areas (ASPR 1 805.1), use of Government facilities, maintenance of mobilization base, or other policies which may be appropriate to the particular procurement. Therefore, Government review of contractors' "make or buy" programs and proposed subcontracts is required as set forth in this Part. Where "make or buy" decisions and subcontracting will have a substantial impact on price negotiation or contract performance or administration, the contractor's "make or buy" program and subcontracting should be evaluated and agreed on during negotiations, to the extent practicable.

(b) Review of the contractor's purchasing system, principal proposed subcontracts and "make or buy" program should generally be made where (1) the item, system, or work is complex, the dollar value is substantial, or competition is restricted; and (2) cost reimbursement, price redetermination, or incentive-type contracts are to be used.

3 002 REVIEW OF "MAKE OR BUY" PROGRAM.

(a) A "make or buy" program is that part of a contractor's written plan for the production of an end item which outlines the major components, assemblies, subassemblies, and parts to be manufactured (including testing, treating, and assembling) in his own facilities and those which will be obtained elsewhere by subcontract.

(b) Where the nature of the procurement is such that, in view of the factors in ASPR 3 001(b) above, review of the "make or buy" program is appropriate or is otherwise considered essential, the prospective contractor shall be required to submit his proposed "make or buy" program, together with sufficient data to permit the contracting officer to evaluate such factors in (c) below as are pertinent.

(c) In reviewing the "make or buy" program during negotiation, consideration shall be given to the following factors in the light of how they affect the interests of the Government:

(i) the effect of the contractor's plan to make or buy, as the case may be, on price, quality, delivery, and performance;

(ii) whether the contractor plans to broaden his base of subcontractors through competitive means;

(iii) whether the contractor has given consideration to competence, abilities, experience, and capacities available within other firms;

(iv) whether small business concerns are given an equitable opportunity to compete for subcontracts;

(v) whether the contractor or major subcontractors proposed to do work in plant, the nature of which differs significantly from their normal in-plant operations or for which they are not historically suited;

(vi) whether production of the item or performance of the work will create a requirement, either directly or indirectly, for additional facilities to be furnished by the Government, by the contractor, or by subcontractors;

(vii) whether the contractor proposes to use additional Government-furnished facilities to do a type of work in plant for which there is capacity elsewhere (not requiring Government facilities) which is competitive in quality, delivery, and overall cost, and is acceptable as a source to the contractor; and

(viii) other factors, such as the nature of the item, experience with similar items, future requirements, engineering, tooling, starting load costs, market conditions, and the availability of personnel and material.

After agreement on the program is reached, the contracting officer shall notify the contractor as to the Government's approval of the program and shall inform the contractor as to any requirement for further review during performance of the contract.

(d) In contracts resulting from negotiation in which a "make or buy" review has been made and agreement reached thereon pursuant to (c) above, there generally should be included a requirement for notification to the Government in advance of any proposed change to the "make or buy" program together with justification therefor. Where notification is required, the following clause shall be used:

CHANGES TO MAKE OR BUY PROGRAM

"The Contractor agrees to perform this contract in accordance with the 'make or buy' program attached to this contract except as hereinafter provided. If the Contractor desires to change the "make or buy" program, he shall notify the Contracting Officer in writing of the proposed change reasonably in advance and shall submit justification in sufficient detail to permit evaluation of the proposed change. With respect to items deferred at the time of negotiation of this contract for later additions to the 'make or buy' program, the Contractor shall notify the Contracting Officer of each proposed addition at the earliest possible time, together with justification in sufficient detail to permit evaluation. The Contractor shall not, without the written consent of the Contracting Officer, make changes or additions to the program; *provided* that in his discretion, the Contracting Officer may ratify in writing any changes or additions and such ratification shall constitute the consent of the Contracting Officer required by this clause. The 'make or buy' program attached to this contract shall be deemed to be modified in accordance with the written consent or ratification by the Contracting Officer."

(e) Approval of the contractor's purchasing system (ASPR 3-903) shall not be construed as approval of the "make or buy" program where such is required.

3-903 Review of Subcontracting and Contractors' Purchasing Systems. Examination of the contractor's purchasing system and plans for subcontracting, review of proposed subcontract sources and prices in the light of the factors indicated in ASPR 3-901, and discussions with contractor to bring about any adjustments which may be needed to clear the way for formal subcontract approval, should generally be accomplished as part of the negotiation of the prime contract. Any resulting purchasing system approvals may be granted before the contract is executed.

3-903.1 Contract Clauses.

(a) The prescribed clauses, covering Government consent to subcontracts, for cost-reimbursement type contracts are set out in ASPR 7-203.8 and 7-402.8. Except where definite and final evaluation of the contractor's subcontracting is accomplished during negotiations, the following clause (unless modified in accordance with (b), (c), or (d) below) shall be included in all fixed-price incentive and fixed-price redeterminable contracts where—

(i) It is anticipated that one or more subcontracts may each exceed \$100,000 or such other figure as is to be included in (b) (ii) and (iii) of the following clause in accordance with (c) below;

(ii) the work of the prime contractor, or of the plant or division of the prime contractor which will perform the contract, is predominantly for the Government; or

(iii) the estimated contract price is \$1,000,000 or more.

SUBCONTRACTS

"(a) As used in this clause, the term 'subcontract' includes purchase orders.

"(b) Except as provided in paragraph (d) below, the Contractor shall notify the Contracting Officer reasonably in advance of entering into any subcontract which—

"(i) is on a cost-plus-a-fee, time and material, or labor-hour basis and which would involve an estimated amount in excess of \$10,000, including any fee; or

"(ii) is proposed to exceed \$100,000; or

"(iii) is one of a number of subcontracts under this contract with a single subcontractor for the same or related supplies or services which, in the aggregate, are expected to exceed \$100,000.

"(c) The advance notification required by paragraph (b) above shall include:

"(i) a description of the supplies or services to be called for by the subcontract;

"(ii) Identification of the proposed subcontractor and an explanation of why and how the proposed subcontractor was selected, including the degree of competition obtained;

"(iii) the proposed subcontract price, together with the Contractor's cost or price analysis thereof, including current, complete, and correct cost or pricing data, accompanied by a certificate from the subcontractor, in such form as the Contracting Officer may prescribe, to the effect that all cost or pricing data has been considered by the subcontractor in preparing its proposal and that such data is current, and has been provided the Contractor; and

"(iv) Identification of the type of contract proposed to be used.

"(d) Advance notifications of subcontracts, as required by paragraph (b) above, are not required for any subcontract (1) not on a cost-plus-a-fee, time and material, or labor-hour basis, if the Contracting Officer has in writing approved the Contractor's purchasing system and the subcontract is within the limitations of such approval, or (ii) consented to in writing by the Contracting Officer as a proposed subcontract prior to the execution of this contract.

"(e) The Contractor shall not, without the prior written consent of the Contracting Officer, enter into any subcontract for which advance notification to the Contracting Officer is required by this clause; *provided* that, in his discretion, the Contracting Officer may ratify in writing any subcontract and such ratification shall constitute the consent of the Contracting Officer required by this paragraph.

"(f) No consent by the Contracting Officer to any subcontract or any provisions thereof or approval of the Contractor's purchasing system shall be construed to be a determination of the acceptability of any subcontract price or of any amount paid under any subcontract or to relieve the Contractor of any responsibility for performing this contract, unless such approval or consent specifically provides otherwise.

"(g) The Contractor agrees that no subcontract placed under this contract shall provide for payment on a cost-plus-a-percentage-of-cost basis."

(b) The clause set forth in (a) above may be appropriately modified so as not to require advance notification of, or consent to, any subcontracts which have been definitely and finally evaluated during negotiations. In this respect, the clause may limit advance notifications thereunder to one or more particular subcontracts or classes of subcontracts, or may, in individual cases, be tailored to unusual or particular circumstances.

(c) In paragraph (b) (ii) and (iii) of the clause set forth in (a) above, a lower dollar amount may be inserted in lieu of \$100,000 where it is determined that closer surveillance of subcontracting is desirable because of the character of the industry involved, the critical nature of work which will probably be subcontracted, the absence of competition in placing the prime contract, uncertainties as to the adequacy of the contractor's purchasing system, or the novelty of the supplies or services being procured. A higher dollar amount than \$100,000 may be inserted in paragraph (b) (ii) and (iii) of the clause when the insertion of the higher amount is approved at a level higher than that of the contracting officer, as prescribed by the Department concerned.

(d) The certificate prescribed by paragraph (c) (iii) of the clause above shall be in the form set forth in ASPR 3-807.7 appropriately modified to reflect that it is a certificate to the prime contractor, rather than to the Government.

3.903.2 Consent to Subcontracts.

(a) The contracting officer's consent to subcontracts required by the clause set forth in ASPR 3-903.1 (for fixed-price redeterminable or fixed-price incentive contracts) or the clause set forth in ASPR 7-203.8 or 7-402.8 (for cost-reimbursement type contracts) shall be accorded by individual consent on subcontract-by-subcontract basis. However, where the contracting officer has approved the contractor's purchasing system, in whole or in part, such consent is not required for subcontracts within the scope of such approval, except as to cost-reimbursement type, time and materials, or labor-hour subcontracts, and in the case of cost-reimbursement type prime contracts, subcontracts, which provide for the fabrication, purchase, rental, installation, or other acquisition of any item of industrial facilities.

(b) The purposes of subcontract consent requirements are usually best served if review and analysis of the contractor's purchasing system and of his proposed subcontracts are carried out in conjunction with negotiation of the prime contract (and concurrently with any review of the contractor's "make or buy" pro-

gram as required by ASPR 3-902). Although consent to subcontracts cannot always be formally accomplished prior to execution of the prime contract (since definitive subcontracts are not generally entered into until after execution of the prime), the review, analysis, and discussion leading up to such formal consents should, where feasible, be conducted during the negotiation process.

3-903.3 Approval of Purchasing System.

(a) Approval of a contractor's purchasing system should be granted only after a survey which includes review of such factors as:

- (i) the degree of competition obtained by the contractor's purchasing methods;
 - (ii) the contractor's pricing policies and techniques, when necessary, including its methods of obtaining current, complete and accurate cost and pricing data;
 - (iii) the contractor's method of evaluating subcontractors' responsibility (ASPR 1-906);
 - (iv) the extent to which the purchasing system is consistent with any contract requirements covering small business and labor surplus area concerns; and
 - (v) the treatment accorded affiliates of the contractor or other concerns having close working arrangements with the contractor.
- (b) Approval of a contractor's purchasing system may be unqualified or may be limited. For example, the purchasing system may be approved except for subcontracts in excess of a stated amount or except for subcontracts for stated work which is of such critical nature that extraordinary Government surveillance is called for. Where the approval is limited by reason of deficiencies in the purchasing system, the contractor shall be notified of such deficiencies and requested to correct them. In no case shall approval of the contractor's purchasing system waive the requirement for individual consent to cost-reimbursement, time and materials, or labor-hour subcontracts. In the case of cost-reimbursement type prime contracts, in addition to the foregoing, approval of the contractor's purchasing system shall not waive the requirements for individual consent to subcontracts which provide for fabrication, purchase, rental, installation, or other acquisition of any item of industrial facilities.
- (c) Upon approval of the contractor's purchasing system (whether unqualified or limited), the contracting officer shall give the contractor written notice thereof. The notice shall set forth any limitations on the approval and shall state that the approval does not (i) relieve the prime contractor of any of its obligations under any contract, (ii) restrict the Government from subsequently withdrawing the approval in whole or in part, or (iii) cover any unapproved material changes which the contractor may make in its purchasing system.
- (d) After approval of the contractor's purchasing system, periodic examination of the contractor's operations under such system shall be made to determine whether any substantial changes in procedures, initiated by the contractor or as a result of recommendations by the Government, have occurred, as well as to evaluate the contractor's performance under the purchasing system.

3-903.4 Review of Individual Subcontracts.

(a) In reviewing or consenting to individual subcontracts, the contracting officer should give appropriate consideration to the following:

- (i) whether the decision to enter into the proposed subcontract is consistent with the contractor's approved "make or buy" program, if any (see ASPR 3-902);
 - (ii) whether the proposed subcontract will require the use of Government furnished facilities;
 - (iii) the responsibility of the proposed subcontractor (ASPR 1-906);
 - (iv) basis for selecting proposed subcontractor, including the degree of competition obtained;
 - (v) cost or price analysis or price comparisons accomplished, with particular attention to whether cost or pricing data are current, complete, and correct (see ASPR 3-903.1(d));
 - (vi) extent of subcontract supervision;
 - (vii) types of contracts used (ASPR Section III, Part 4); and
 - (viii) estimated total extent of subcontracting, including procurement of parts and materials.
- (b) In reviewing subcontracts, careful and thorough evaluation is particularly necessary when:

(I) the prime contractor's purchasing system or performance thereunder are considered indefinite;

(II) subcontracts are for items for which there is no cost information or for which the proposed prices appear unreasonable;

(III) close working arrangements or business or ownership affiliations exist between the prime and the subcontractor which may preclude the free use of competition or result in higher subcontract prices than would otherwise be obtained;

(IV) a subcontract is being proposed at a price less favorable than that which has been given by the subcontractor to the Government, all other factors such as manufacturing period and quantity being comparable; or

(V) a subcontract is to be placed on a cost-reimbursement, time and material, labor-hour, fixed-price incentive, or fixed-price redeterminable basis. Where subcontracts have been placed on a cost-reimbursement, time and materials, or labor-hour basis, contracting officers should be skeptical of approving the repetitive or unduly protracted use of such types of subcontracts and should follow the principles of ASPR 3 803(b).

3 904 ADDITIONAL CONTRACT CLAUSES. Additional contract clauses with respect to subcontracting with Small Business and Labor Surplus Area concerns are set forth in ASPR Section VII.

ADEQUACY OF LEGISLATIVE AUTHORITY

The CHAIRMAN. I appreciate the time you have taken this afternoon.

I regret that in a few minutes I must leave.

I would like to raise a few general questions about your relative authority and whether there is need for more and whether the single manager system should be carried further or when a general supply service should be created.

The first thing I would like to ask is, Do you think that you have adequate authority under the O'Mahoney amendment and the Curtis-McCormack amendment and other statutes passed by Congress to enable you to do an effective, efficient, economical supply management job in the Department of Defense or do you think you need and want additional legislative authority?

Mr. McGUIRE. I think this ought to be answered in two parts. Your basic question is addressed to the Department of Defense.

I think the Department of Defense has the authority. I am not so sure, candidly, that the Department of Defense did not already have the authority, but the emphasis put on this thing by these two amendments has not only highlighted it but given some people cause to move faster.

The CHAIRMAN. Do you want any more legislation?

Mr. McGUIRE. No, sir.

The second part of your question, as to whether I personally in the execution of what I am trying to do, have that authority.

I think I have adequate authority and if I did not have it, if I went to Mr. Gates and explained it to him, I think I could have it in 5 minutes.

SINGLE MANAGER FOR SURPLUS DISPOSAL

The CHAIRMAN. Now, have you considered the possibility of having a single manager for the entire disposal of surplus property?

Mr. McGUIRE. We have, and we have thought first that we had better take the initial steps we are taking now, and get this thing down in a more compact area so that we know more about it.

I do not want to mislead you. In a degree we are moving closer to this kind of arrangement when we consolidate and have central sales offices.

The CHAIRMAN. Is it not amazingly complicated with your four services and parceling out an infinite variety of items, parceling out to these different services?

Mr. McGUIRE. Yes, sir.

The CHAIRMAN. For instance, I have been going over the division between the Navy and the Army in this industrial equipment. I would hate to be the supply officer and have to find out what should go to the Navy and what should go to the Army.

I think Congressman Brown, of Ohio, put an article from the New York Herald Tribune of this morning into the record. Navy is to handle industrial supply, such as screws, nuts, bolts, rivets, fasteners, wire, bars, metal sheets, tubing, and shapes. The Air Force is going to have handtools, boxes, cartons, crates, cans, bottles, jars, household and office equipment, furniture, kitchen and laundry equipment, computing machines, musical instruments, athletic equipment, recreational goods, paper and paperboard, and packaging equipment. Army is going to have refrigeration units, craftsman's measuring tools.

With hundreds of thousands of items, parceling this out, like the philosophy of Don Scott who exercised his talents trying to find out how many angels could dance on the point of a pin, why not have a single department of supply for all four services?

SINGLE DEPARTMENT OF SUPPLY

I am not for consolidation of the services so far as combat functions are concerned, but what about a single Department of Supply?

Mr. McGUIRE. I would like to try to answer that for you from where I sit in this picture.

I came into this field in late 1956, having come up from the area of the military assistance program. I was not prejudiced. We attempted to analyze this problem and see what it really was.

There have been a lot of contentions made.

As I see the problem, any system that we were to create tomorrow morning, and I have been through this in business, when you make a merger with somebody you really get chaos. You do not know where you were before, you just brush it over. You must first correct what you are doing today in the details where you can segregate it and examine it and you know what you are doing. Then you have a benchmark, if I may put it that way.

Any system that we were to make tomorrow that would consolidate all of the supply systems would still have inherent in it the bad problems that we are trying to correct.

That is point 1.

Point two, I think that you would have, due to the very magnitude that you mentioned, a continuity of problems with an inability to get down to them and put your finger on them. Just because you changed it and called it by another name is not going to change that.

I am not arguing that eventually by segregating this business out and getting it so that you internally build each block stronger and know what you are doing, that this may not be the proper solution.

I would point out to you, however, that even in the big merchandising organizations, they do have departments under separate managers and they do not necessarily run their business internally the same way.

This I know because I have done it. There are different problems associated with them.

The CHAIRMAN. I understand you have Army Supply Officers, Navy Supply Officers, Marine Corps Supply Officers, Air Force Supply Officers.

Mr. McGUIRE. Maybe we ought to have all supply officers in the same uniform, if this be the point.

I do not think this would necessarily make them different.

I am anxiously trying to promote a common supply school where we teach these people the same language. We are trying to get commonality of language here.

In surplus disposal, we have assigned the training and teaching and the procedural aspects of this to the Army. This is along the line of what you are suggesting. It is going by steps rather than suddenly pulling the strings and having a lot of stuff pouring out on us which we cannot identify.

The CHAIRMAN. In 1952, I made a motion to suspend the rules when we were dealing with the military defense appropriation bill to create an independent service of supply headed by an Under Secretary of Defense in the Department of Defense.

The O'Mahoney amendment was advanced as a substitute for this motion of mine.

We have had 8 years under the O'Mahoney amendment.

Now, we have made some progress under it but relatively small progress.

Now in effect, you are saying this may be true, you might perhaps have a single service of supply in the far off future—

Mr. McGUIRE. No, Senator, I am not trying to say that we will or will not. I am simply saying to you that we are all interested in getting this nailed down, to keep this thing on a benchmark so that we can identify it and correct the pieces that are within it.

I think we are making rather substantial progress in this direction.

I might also tell you that I think that if we were to take this structure, and suddenly put it under another system, that we might be doing that which I wanted to be very sure I was not doing, creating a confusion in our logistics system.

It has been contended that we have it already, but I think it would be worse.

If I were sitting on the side of the Russians, I think this would be an advantage to me.

The CHAIRMAN. You are not charging that I am advancing this in order to help the Russians?

Mr. McGUIRE. No, I am simply trying to say this: that I have been through two or three reorganizations in the supply, distribution, and selling business, and if you really want to see chaos, start merging the retail business. As a matter of fact, we had an old axiom, when you took over a new store it usually did not make much money for a couple of years because we were busy changing the system rather than paying attention to merchandising.

The CHAIRMAN. Has this merger movement been a fiction or delusion?

Mr. McGUIRE. No, sir. I think it obvious you want to see one accomplished, we are moving rather fast in this direction.

The CHAIRMAN. You would like to have us help you?

Mr. McGUIRE. Yes, sir.

The CHAIRMAN. All right, that is my intention, at the appropriate time to again move to suspend the rules and to create a single Department of Service of Supply under an Under Secretary. If the O'Mahoney amendment of 1952 accelerated your action and the Curtis-McCormack amendment subsequently accelerated your action, I am willing to accelerate it still further.

Mr. McGUIRE. I do not want to be accused of trying to be an Under Secretary.

The CHAIRMAN. In this article by Mr. Allen M. Smythe in the New York Herald Tribune of January 4, 1960, which has impeccable respectability, the Herald Tribune being the eastern mouthpiece of the administration, the final paragraph reads as follows—

Senator JAVERS. If the chairman will yield.

The CHAIRMAN. It may be other things as well, but it is the eastern mouthpiece of the administration.

Senator JAVERS. I would say, Mr. Chairman, that, as long as it is eloquent and sells a lot of papers—

The CHAIRMAN. I am quoting it, Senator.

This article reads:

Top defense supply officials are pushing the single manager plan of unified buying to head off possible congressional demands for a service of supply to force Defense Service to handle all defense purchasing.

Now, if the threat of centralized service of supply has accelerated the development of the single manager plan which you say is an improvement, I am ready to accelerate it still further by saying it is my present intention when the defense bill comes up again to move to suspend the rules and to put this into effect.

Now, someone may raise a point of order but—

Mr. McGUIRE. All I am saying in respect to that is from where I sit and for whatever my judgment is worth, I think we are moving to these objectives that we have set forth.

The CHAIRMAN. That is what I said in 1952; it will not be necessary to pass this, we will do it all by internal adjustment. Eight years have gone by. How much longer must we wait?

Mr. McGUIRE. I was not here to say that.

The CHAIRMAN. No, but your predecessor said that.

Mr. McGUIRE. I also have said that I do not believe that a fourth service of supply under these circumstances, will necessarily be a good thing.

This is my professional judgment, to the best of my ability.

TRANSPORTATION

The CHAIRMAN. Before I leave, I do want to put in the record a letter which you were kind enough to write me, Mr. McGuire, about defense transportation costs.

Mr. McGuire. Yes, sir. I apologize for that being so late in getting over here but I challenged some of the figures to be sure they were right.

The CHAIRMAN. This letter is dated January 29. It shows the total transportation bill of \$1,271,580,000, of which \$110 million was expended for transportation of passengers within the United States; \$72,400,000 by ocean transport; \$82,338,000 in military transport known as MATS; transportation of household goods approximately \$200 million.

I may say, as I understand it, there is quite a struggle over who is going to haul household goods.

The bill for transportation is \$200 million. Transportation within the United States is \$130 million.

Is \$130 million comprised within the \$200 million?

Mr. McGuire. Yes.

(The letter follows:)

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington D.O., January 29, 1960.

Hon. PAUL DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Your letter to the Secretary of Defense, dated January 13, 1960, requested information on Department of Defense transportation costs. The following items are numbered to correspond with the listing in your letter and refer to fiscal year 1959.

(1) Total transportation bill: Air, \$435,580,000; ocean, \$414 million. Service within the United States by highway, \$240 million, by railroad, \$177 million; by inland waterways, \$5 million. The above-rounded amounts total \$1,271,580,000.

(2) One hundred and ten million dollars was expended for the transportation of passengers within the United States by all modes. Costs for passenger travel to and from overseas areas were \$72,400,000 by ocean transport. The military services spent \$82,338,000 with the Military Air Transport Service for passenger transportation; \$48.2 million of this amount went to commercial air carriers, the remainder was used for MATS military airlift including troop carrier and domestic aeromedical evacuation.

(3) The cost of transportation of household goods was approximately \$200 million, worldwide. This figure includes packing, crating, and related costs.

(4) Cost figures for the storage of household goods will be forwarded at a later date.

(5) The movement of privately owned vehicles to and from overseas areas amounted to \$40 million. Of that figure, \$30 million was for transportation and \$10 million for terminal charges in the United States and overseas.

(6) The total number of household goods shipments within the United States by all modes of transportation was 584,400. The division between carload and less carload shipments is not available.

(7) The industrial fund cost of Military Sea Transportation Service operations was \$414 million of which \$242 million was for procurement of commercial lift.

(8) The industrial fund cost of operating that portion of the Military Air Transport Service that provides airlift service within the Department of Defense was \$274,340,000 of which \$70,350,000 was for commercial airlift.

(9) The cost of other air transportation service amounted to \$161,240,000. This figure represents the cost of commercial airlift other than that procured by MATS. It includes the Air Force Logair program, the Navy's Quicktrans program, individual travel and Government bill of lading traffic.

It will be noted the movement of household goods and privately owned vehicles account for large amounts of the Department of Defense transportation bill and represent entitlement expenditures to members of the Armed Forces and their dependents. Pertinent statutes are section 303(c) of the Career Compensation

Act of 1940, as amended (52 Stat. 802), title 10, United States Code, sections 4748, 6157, and 6748.

I trust this information will be helpful to the committee.

Sincerely yours,

PERKINS MCGUIRE,

Assistant Secretary of Defense (Supply and Logistics).

The CHAIRMAN. Now, the distribution of this business has a heavy impact on the small van lines. Is the matter now settled? I think you know that we asked for a hearing in behalf of the small van lines.

Mr. MCGUIRE. That is right.

The CHAIRMAN. I do hope that you will not let the four or five big companies get all this business.

Mr. MCGUIRE. Senator, my interest is to see that we have a fair and equitable and a good transportation system. I do know there was a great deal of commotion about this.

I might say that from a point of view of interest in this matter, I do not think there has been anything that I know of since I have been here in which there was as much interest. We had as many people on one side as the other, it seemed to me. We suspended temporarily the implementation of the directive to be sure that what we were saying could be thoroughly reviewed with industry.

The phase of this directive that had to do with what I would call integrating this thing into the Military Traffic Management Agency was not suspended. I did not think this is what you or other members and the people in Congress wanted.

This is the concern of industry.

I think we are trying to play this thing properly as representatives of the Government.

The CHAIRMAN. Do you think your maximum poundage requirements are proper for the various ranks? Do I understand that the two-star general and above has 11,000 pounds or 5½ tons?

Mr. MCGUIRE. Senator, I really have no capability of evaluating that. All I can say to you is that a great deal of money is being spent in this exercise.

The CHAIRMAN. I know. That raises a question whether a person should be given 5½ tons.

Mr. MCGUIRE. I just do not have the background—I do not know what the weight limits are in this field.

Representative CURTIS. Let me remind you that that is temporary legislation. Permanent legislation goes up to 24,000 pounds. Congressman Bonner and I were interested in this.

The CHAIRMAN. Which is operating at the present time, the 11,000?

Representative CURTIS. The 11,000, but that is temporary.

The CHAIRMAN. If that is allowed to lapse, you go up to 24,000 or 12 tons.

Representative CURTIS. That is right.

Mr. MCGUIRE. This has been largely developed, I am told, in the areas of the morale, and personnel relationships in the services.

I am not competent to give you a fair opinion on this. I am interested in it from the amount of money. My understanding is that in exercising the transportation responsibility, we do it in conjunction with or under established guidelines.

In fairness to you, Senator, I apologize for having these figures over here so late. If you have any questions that I can answer or anything

that I can supply later that you would like to ask me as a result, I will be glad to answer them.

The CHAIRMAN. I am told that the top figure for a civilian, an ambassador, for instance, is 7,000 pounds.

Mr. McGUIRE. No one has ever moved me any place and paid for it.

Representative CURRIS. I was just checking here. There is no uniformity, though, in the services on this furniture transportation, and so forth.

Mr. McGUIRE. I do not even know that.

Representative CURRIS. I think that is accurate. It is each one of these little areas. There is no reason for lack of uniformity.

The CHAIRMAN. I notice representatives of the Bureau of the Budget sitting here at the side table. I will take official notice of their presence and ask them, though they are not agents of the Congress, if this would not be a very good study to make on transportation costs and allowances of military and civilian personnel with a view of getting some degree of uniformity, adequacy, and yet economy.

Mr. MULLINS. There has been a lot of work done on this as a cooperative effort between my office and the office of Mr. McGuire.

In the first place, it is true that the civilian weight limit is 7,000 pounds. There are some complaints as to its adequacy.

We are in the process of trying to find out whether there is any real basis for those complaints.

I should say that the 7,000 pounds is further broken down, depending on not the person's rank but whether he is married or single. If he is single, he only gets 2,400 pounds.

Now, the main basis upon which we have been in it is because of the fact that the civilian part of the Government pays for its transportation according to a so-called computed rate system which was enacted into law in 1946.

The easiest analogy to that is that it is the same as the per diem rate that people get paid for when they are traveling.

There has been a question raised as to whether that computed rate system should be modified slightly or modified quite a bit or repealed altogether.

Now, that ties in very directly with the point that was made in the discussion with Secretary McGuire in that the military, the uniformed people, do not operate according to that computed rate system. In their case, it means that the Government does the dealing with the carrier. They arrange with the carrier. They pay the bill, and so forth. Whereas for civilians, the civilian goes out and does his own deal with the carrier and then he is reimbursed according to this computed rate system which is based upon the ICC tariffs.

It is a pretty long and involved case, perhaps more than you want to go into, but I can tell you one of the main difficulties, and again where it ties in very closely with the point that you were discussing, is that you do not have an equality of ICC rates in this household goods area as you do, say, if you were just shipping stuff by freight. You have not just the big dealers, the big van lines versus the little ones, but you have one set of rates versus another set of rates. You have, you might say, a high rated group associated into a trade association and a lower rated group also very heavily organized into a trade association.

Then it goes down from there, a whole vast structure of transactions relations in this field, all of them very highly competitive.

It is in that competitive situation that has caused the discussion and the matters in the newspapers and things of that kind.

We come in it so far only from the sidelines of our exploration with the Department of Defense doing a great deal of the staff work since we had to use their group for the testing purposes.

Mr. McGUIRE. To clarify something I said, I do not want to leave the wrong impression. I believe we have supplied the Bureau of the Budget with transportation figures and the quantities in this matter but what a general is allowed to take—that is the point I was addressing myself to—is out of my field. If I were to say tomorrow morning the generals will only have 1 pound or 5,000 pounds, I am sure that I would be challenged as being out of my field. This will have to be in the personnel policy area.

The CHAIRMAN. I understand there is a sliding scale with the top man 11,000.

Mr. McGUIRE. That is correct.

The CHAIRMAN. Also, I want to correct the record. I used the rank of ambassador as a civilian analogy, but the Foreign Service, of course, has its own transportation system.

I must leave. Will you please preside, Mr. Curtis?

Representative CURTIS. Thank you, Senator.

AGENCY FOR CENTRALIZED BIDDERS LIST

There is one question I would like to ask, I understand that on this problem of handling your disposal, you set up a group or a group has been set up down at Kelly Air Force Base to do that. The question is: Why is not that operation performed up here as part of the Armed Forces Supply Support Center? It seems to me it would be very logical.

Mr. McGUIRE. We have had a test program going on in the Air Force which is called the centralized bidders list. This is where you register if you want certain information. It seems sensible to us, since we have it down there, to use it rather than to move this whole exercise here in Washington.

Paul Riley can speak to this in greater detail and so can Colonel De Luca.

I think we exercise what will prove to be sound judgment in doing this.

This is the mechanical process of keeping the bidders' list to see who gets the mailings and notices in order to be sure that a man—and this is one of the problems that I think has been criticized—does not have to write 19 different letters that go to 19 different places in order to get notified.

Representative CURTIS (presiding). That point is very good. I am wondering why that is not part of the Armed Forces Supply Support Center.

Mr. McGUIRE. As I understand it, it will come under their direction, being operated by the Air Force, but they already have this thing in being.

Representative CURTIS. It will be under their direction?

Mr. RILEY. The Armed Forces Supply Support Center has the utilization function where we do our screening of materials to find out if there are other users in the Department of Defense.

This operation we are talking about is after it is no longer usable, it is up for sale to be disposed of. It is a going organization, it has been operating for more than a year. It was staffed, fully equipped, the people were trained, there was an existing organization, and, in our judgment, we thought it was better to assign this function to the Air Force to do the job for the entire Department of Defense rather than move it somewhere else.

PROLIFERATION VERSUS UNIFICATION

Representative CURTIS. The point I am getting at is, if we are to get unification, we do not want this proliferation. It seemed to me this was a most logical second step function under your Armed Forces Supply Support Center. Of course, being suspicious of these things that are done—and I do not hesitate to express that suspicion—the possibility struck my mind that it is just one further attempt not to bring it together because, if it were brought together, it would become very obvious that the whole process of disposition could be handled under one roof. I do not mean at one location; I mean under one command.

Mr. McGUIRE. I do not think this was the basis of the decision, Mr. CURTIS. We could well come to the conclusion that you have after this thing is running and consolidated.

Representative CURTIS. But you have not decided?

Mr. McGUIRE. I do not want to mislead you on it.

Representative CURTIS. That is what worries me. We pay this lip-service—well, it is more than lip-service, but sometimes I wonder—to the single manager plan. We thought we were getting that into effect in 1952. Now, the testimony is that we have now got six of them and two more are going to be added.

Mr. McGUIRE. The two that we are adding, Mr. CURTIS—

Representative CURTIS. Four are in existence, two more to be added.

Mr. McGUIRE. We are talking about the existence—

Representative CURTIS. We are talking of one area now, of common use, when the potential is probably around 14 or 15.

Mr. McGUIRE. I am not sure that that is true.

Representative CURTIS. The potential, you mean?

Mr. McGUIRE. Yes. We are also exploring now, rather than creating more of these, what items can we put into the existing ones and utilize their efficiency.

I am not beholden to the fact that we have to create a single manager on every move of this thing.

Representative CURTIS. Amen. In other words, you might be able to use the ones that you have.

Mr. McGUIRE. Definitely.

Representative CURTIS. Of course, you have already got it parceled out among the services. That is the thing that disturbs me. Does it not strike you as peculiar that every time we move ahead the Navy gets its share, the Air Force gets its share, the Army gets its share?

Mr. McGUIRE. No, This is not a fact.

Representative CURRIS. Why has it turned out to be that way?

Mr. McGUIRE. This is not a fact.

Representative CURRIS. Can you explain why one of the services is given control over—

Mr. McGUIRE. Let us say the two we are now establishing, one goes to the Army, one goes to the Navy.

Colonel De LUCA. As to why these single managers were recommended to be assigned where they were, there is no lack of logic nor is there parceling out. I am making that statement so that I can draw the line specifically between your statements and our reasoning. I am on the analysis staff of the Armed Forces Supply Support Center. This is the outfit that Mr. Hangen directs and expressed comments on yesterday. We work in an environment of objectivity to integrate our supply systems. This is what Secretary McGuire has charged us with.

He says, "You fellows go in there and with intellectual honesty analyze what to do to bring us on the road to integration with economy and effectiveness." We work for a Council, consisting of Army, Navy, Air Force, Marine Corps general and flag officers, who represent their services materiel management. The Council also includes Mr. McGuire's Deputy and Mr. Hangen. They are our board of directors. We work in this environment where we are charged as an independent research group to seek ways of integration, to bring about the things you, Senator Douglas, and Senator O'Mahoney have discussed.

Now, we examined, as one of the first areas, "General supplies." These commodity areas provide the greatest immediate potential for integrated management considerations. They encompass about six major commodity areas, administrative and housekeeping, handtools, hardware, construction, automotive, and electrical/electronics.

This encompasses about 2 million items in these categories out of 3½ million items the Department of Defense has. Total inventory is over \$9 billion.

So, the first bite that Secretary McGuire and the Council approved for study were the first two—administrative housekeeping and handtools, some 75,000 items, \$350 million worth of inventory.

We studied the supply systems of the four military services, including GSA, so that we had the total picture. We concluded that inter-ter. This is the outfit that Mr. Hangen directs and expressed commodity areas could be managed as one package. No division or parceling out. Then, the question is: Who?

Let us address ourselves only to that point.

Who do you assign administrative housekeeping and handtools to for defense consolidated management under the single manager system? Obviously you have to have a main frame—a going concern—that has three main assets in it—resources, skills, and a system designed to the management of these kinds of items. Where do you find them? You cannot pin it on the Red Cross. You don't just quickly organize on paper and resolve the legal, funding, and personnel considerations. You cannot pin these type commodities on the Chemical Corps. So, logically you come to who is running this kind of commodity. You consider elements such as capacity, capa-

bility, predominant interest, and how integrated they are in their own service supply system.

Well, the initial package of administrative housekeeping and handtools was predominantly in the Army. There it was predominantly in the Quartermaster and more specifically it was the inventory control point at Richmond. This is where you can put that type of commodity for total Defense management and immediately begin to reap the benefits that have been discussed. You exploit your existing capitalized structure to secure effectiveness with the least disruption to operations and personnel.

Now, a separate committee of Congress, the Holifield committee, a little earlier in May said, "Why do you people study these things so long? Do you study to delay action? Are not some of these areas susceptible to single management without protracted study?"

Mr. Riley testified on this and said we are trying to take as many areas as possible.

So we, in our analysis staff, while we were studying administrative housekeeping and handtools, were also checking out hardware to determine whether our findings applied thereto. They did to an acceptable degree in materiel characteristics, and management techniques. Hardware is managed by basically the same commodity type inventory control points that were managing what we were studying—administrative housekeeping and handtools. The supply systems are basically the same, distribution points are the same, there are technical items and also common items. So, trying to get as much integration as possible without prolonged study, we said, "OK," we will make hardware; it, too, has the capability of being integrated into single management.

Again, you look for a main frame. You look for a going concern. You look for adaptable working systems, for automatic data processing systems, for people skilled in hardware management, for current capability to serve all four services.

Now, Congressman Curtis, honestly, hardware actually was best centralized in the Navy and in the Air Force. This is where the commodity management centers for common supplies of hardware were.

In the Navy, the General Stores Supply Office at Philadelphia had one third of its item range in hardware. This is a hardware management frame that can best take on the defense job. So, where would you hang your consolidated management of hardware?

Representative CURTIS. Possibly on handtools. That is what you said your example was.

Colonel DE LUCA. If you want to put handtools on the table for a detailed discussion—

Representative CURTIS. You already said you went through handtools to find out who had the system and it was like hardware—which I think it is.

I want you to have your full presentation in here. But the reason for my impatience is to ask you this question. Here is the ground for my suspicion of all the fine reasons. We conducted a survey, or rather, an experiment on this, back in 1952 or 1953 with medical supplies at the Alameda Depot and had the Army run it. Why, then,

was the thing assigned to the Navy instead of turning it over to the Army after it proved to be successful in the Army?

You see, the Navy needed something, I guess. The Army got subsistence. So the Navy had to have something. That is the thing I do not understand.

All three of the services, I guess, by now, the Air Force was not supposed to ever develop a supply system for common-use items; is that right?

Colonel DE LUCA. It does not have any single manager assignments as yet.

Representative CURTIS. I know; not as yet. That is what I am afraid of. In some instances they had to create an Air Force supply system which did not even exist in order to give the Air Force its share—like petroleum and inspection.

I want to get your story in the record, but I have heard this kind of explanation before and it just does not jibe.

Colonel DE LUCA. You must take advantage of existing resources and skills.

Representative CURTIS. Of course, you do; but you are also not trying to end up with each service having one—one and one.

How can you explain to me why you can reach the conclusion of what you were explaining, of handtools going to one and hardware going to another? It looks like you got the two items together, as Secretary McGuire is saying—that, instead of creating new ones, you will try and put the other kind of materials that lend themselves to it in the systems already set up.

Now, why would you not do that with hardware? If you set up handtools—that was first, was it not?

Colonel DE LUCA. They were established concurrently and both as open-end single managers.

Representative CURTIS. You were working on one then, you said, which called to your attention, "Why not do the other?"

Colonel DE LUCA. I am saying that we are attempting to integrate as orderly and progressively as possible without prolonged determinations and in the study of general supplies as an analysis staff. We also undertook, ourselves, to test out the similarity of hardware management. We did this. We recommend that two open-end single managers be assigned.

Representative CURTIS. Why did you do that? Why did you not recommend one? Why cannot hardware and handtools be handled by one?

Colonel DE LUCA. Capability and capacity on the main frames plus related expansibility.

Representative CURTIS. Let us see. Who got the handtools; the Army?

Colonel DE LUCA. Yes, with administrative and housekeeping items as one package.

Representative CURTIS. The Army did not have the capacity to handle hardware?

Colonel DE LUCA. No, sir. Not concurrently. Hardware involves the management review of over 500,000 items.

Representative CURTIS. You see, that could not have been the decision on capacity; it could not have been the basis on medical supplies,

could it, because the Army did it and the Korean war was based on the Alameda Medical Depot, is that right?

Colonel De LUCA. Congressman Curtis, I cannot discuss Alameda with you in assessing our current and future actions.

Representative CURRIS. The only reason I mention Alameda is because we are talking about the same thing.

Colonel De LUCA. Do we not have a successful integrated medical supply operation?

Representative CURRIS. I am not arguing that. I am arguing how you reach the conclusion. Yes, and I think you can have a successful operation with the Army handling hardware.

There is no question about it, frankly.

I think you are parceling out. I have to have a lot more evidence than what you have given me to believe otherwise.

Colonel De LUCA. May I make one more comment?

Representative CURRIS. Certainly.

Colonel De LUCA. Companion with these assignments of single managers we have two other simultaneous and key actions, the development of a single depot integrated system for all single managers, and development of uniform single manager operating procedures to ease the requisitioning by the customer, to ease his reporting, to process the items through the depots under a uniform system for single managers. This creates integrated management, wholesale and customer. These are companion projects linked with the establishment of these single managers and should give to you the indication that you want, sir.

Representative CURRIS. That is exactly right. That is why I think you should have one manager on the thing. Why, for heaven's sake, create handtools and hardware, two separate ones, unless it is this theory or parceling out?

I think, because time is running along and I do not want to cut you off, for the sake of the record if you would like to supply further information on this, I would be glad to have you do so. Certainly my remarks here are not to be taken as other than what I hope will be constructive criticism. If I seemed to be argumentative, it is to try to bring these things out.

Mr. McGUIRE. I am sure they are being taken on the basis of being constructive.

"BLUEPRINTS" PREPARED BY ARMED FORCES SUPPLY CENTER

Colonel De LUCA. If we, in the Department of Defense, subscribed to the "parceling out" approach and the "go frustratingly slow" theory toward supply integration, we would more likely have assigned administrative and housekeeping items to the Army and handtools to the Navy. We would have stopped there. We would not have concurrently taken up the commodity area of hardware and abrasives for integrated management. Hardware, later, we could have assigned to the Air Force.

Rather, and as our record reveals, in order to further the prompt and practical achievement of a single, integrated, material distribution system with simplified and uniform single manager operating procedures, we concentrated on exploiting the main frames of the

two existing general-commodity inventory control points. These are the Army Quartermaster General Supplies Commodity Center at Richmond, Va., and the Navy General Stores Supply Office at Philadelphia. They were both designated to provide integrated defense management over commodity areas most closely allied to their management and on an expensible basis. Further, we considered it essential for quicker and positive results to utilize the current managerial experience and know-how of the Army and Navy operations in running the existing single management commodities. Both inventory control points best provided the existing main frames of resources, skills, and system and commodity know-how. They were made open-end single managers. Additional commodity classes were spelled out for add-on determinations. We planned to load both to capacity and capability by add-ons.

To the general supplies single manager (Army) along with the initial administrative, housekeeping, and handtool classes, the Defense Department has already assigned additional classes. These are measuring tools, service and trade equipment, self-contained refrigeration units, and fans and air circulators.

To the industrial supplies single manager (Navy), in addition to the initial assignment of hardware and abrasives, add-ons of paints and metals classes have been made.

Not one inventory control point or service in the Department of Defense is capitalized to singly take on that total load and achieve prompt and effective integrated materiel support to our military operations. The machinery is not there.

Further, the Council approved a shorter study approach whereby the services and the Armed Forces supply support center working together will review and evaluate an additional 92 classes. Specifically, here we are examining (based on commodity characteristics, managerial experience, and system operations) whether further integrated Defense materiel management is feasible and profitable.

We shall complete this study within a month. Our deliberations, conclusions, and recommendations are not final as yet. Here, too, we have certain classes like photographic supplies that may be added to the general supplies single manager and chain, rope, cable, and fittings which may be added to the industrial supplies single manager. Both of these agencies are ascending to the limits of their capacity and capability. Our planning and implementation is not parcoling out. Rather, it is orderly and practical integration exploiting our resources of management, sustaining effective operations, and improving economy of operations and investment.

Within the 92 classes, we also have the possibility of establishing integrated defense materiel management for construction supplies as well as automotive supplies. These are the fourth and fifth of the six major commodity areas previously cited. Should it come to pass that it is concluded that one or both of these commodity areas should come under single management, you must understand that here, too, we would need one or two main frames—going concerns—to take on the job of consolidated management. Both commodity areas are too large for the capacity and capability of any one inventory control point considering their other tasks, and any one commodity area would engulf any existing single manager agency. Any task as large and com-

plex as ours must be subdivided into manageable, homogeneous segments. Again, we would assign where capability and capacity exist to provide prompt and effective integrated materiel support to all four military services. This is not parceling out. This is sound business management. Remember our companion actions under the council and Secretary McGuire unifying our single managers within an integrated depot structure and establishing uniform operational procedures. In a real sense, they become defense or national inventory control points linked together by common policy and procedure.

For the last commodity area--electronics/electrical--the council has approved a comprehensive study in view of the technical and complex equipments and systems therein, as well as the common items. Also, this area affects communications and combat operations most directly. We are conducting field research on this study now.

We have jointly developed this blueprint of integration so that the responsible officials, planners, managers, and customers can design their operations within this framework.

The above blueprint is a part of the defense materiel management program that Secretary McGuire has established with the materiel Secretaries. It is a blueprint for an integrated military supply structure with strong building blocks built in an orderly, sensible, and progressive way. As Mr. McGuire said, we are integrating without the chaos that massive reorganization would bring. We ask that you judge us on the basis of our current and planned management efforts.

DIFFERENCES IN THE USE OF STOCK FUNDS

Representative CURTIS. If I may, there are a number of areas that I had hoped to get into but one I want to mention and then ask for supplying of information in the record, that is with regard to use of stock funds. I was very happy to hear you, Mr. Secretary, point out that you picked out the fact that one service was not operating the same way the other services were, and on that basis, you concluded that possibly a lesson could be learned and we could get some more uniformity.

Now, on the use of stock funds, the evidence shows the Air Force is using it only 3 or 4 percent while the other three services have got up around 90, which immediately suggests the question, who might be right on the thing, because we are talking about the same thing.

I have a preconceived notion that probably the Air Force might be right on this thing, because I have had a feeling that the idea of the stock fund had been abused.

If you would address a reply to that point.

Mr. MCGUIRE. I do not profess, Mr. Curtis, to be a stock fund expert. However, I consider the stock fund as a fiscal management tool.

Now, I would be less than candid if I did not tell you that in the past, generally speaking, this has been considered a problem for the Comptroller.

I have been emphasizing, in the logistics area that I have influence in, that we should use this tool and have to get more knowledge of it and examine it. In doing that, we found some barriers which have crept up right along—I am not particularly bothered about that—where there is not flexibility in the stock fund.

I think recently, and Paul Riley can give you more detail on this—for example—we have now made it possible to transfer excess out of a stock fund without requiring reimbursement.

As you take these stock funds down through to the retail level, I do not know the answer but I am asking the question, have we overdone this thing; how far should it go?

I think this stock fund is an excellent vehicle, it is a revolving fund premise. The stock fund cannot run me if I have to supply you a pair of boots.

The stock fund has got to be an indicator, a management operating sheet.

Now we are getting more flexibility in this. I think we have a man here who is an expert in the detail—the Comptroller's office is working with me and we have made great progress in opening this up and examining it.

Representative CURTIS. The essential thing, if you would supply for the record, is the fact that the Air Force apparently does not use it.

(The material referred to follows:)

ASSISTANT SECRETARY OF DEFENSE,
COMPTROLLER,
Washington, D.C., February 24, 1960.

Hon. PAUL H. DOUGLAS,
*Chairman of the Subcommittee on Defense Procurement,
Joint Economic Committee, U.S. Senate.*

DEAR MR. CHAIRMAN: When Mr. McGuire testified before the Joint Economic Committee on January 29, 1960, he was asked the question, why does the Air Force not use stock funds to the same extent as the Army and Navy uses them? This question was referred to the Assistant Secretary of Defense (Comptroller) for response.

The answer to this question involves controversial issues and misunderstanding which will require some time to resolve. This situation and the short time allowed for the answer do not permit development of a coordinated statement. Therefore, the attached statement represents our understanding of the views of the Department of the Air Force on the stock-fund question.

The attached brief discussion of the Air Force viewpoint on the use of stock funds does not include consideration of all the advantages and disadvantages of stock funds. In this connection, there is attached for review, if desired, a statement recently made to the staff of the House Appropriations Committee during the course of its investigation of the use of stock funds in the Department of Defense. This statement includes an exposition of the alternative methods for financing inventories of consumable materiel; advantages and disadvantages of the use of stock funds; and a statement on the present Department of Defense policy with respect to the use of stock funds in the military departments. There has been submitted also to the committee under separate cover a more comprehensive statement with respect to the categories of materiel financed under stock funds in each service with data on the amounts of inventories included in the stock funds at June 30, 1959.

Sincerely,

JOHN M. SPRAGUE,
Deputy Assistant Secretary of Defense.

LIMITATIONS ON USE OF STOCK FUNDS BY THE DEPARTMENT OF THE AIR FORCE

There are two areas in which the Air Force does not use stock funds as extensively as the Army and Navy. The principal area is spare parts, none of which the Air Force finances under stock funds. Secondly, the Air Force does not use stock funds to finance general supplies as extensively as the other two departments, especially at the retail or base level.

While the use of the stock funds to finance spare parts for aircraft and other equipment is specifically authorized by a Department of Defense instruction providing criteria for materiel appropriate for stock-fund financing, there is no

compulsion to finance this materiel under the stock fund. In the absence of a specific directive, the Air Force has adopted the policy that it should not use the stock fund to finance spare parts or any items of supplies which are used in the operation and maintenance of aircraft or other Air Force weapon units. The principal reason for this policy has been stated by the Air Force essentially as follows: The Air Force has determined that the combat effectiveness of Air Force weapon units would be unduly handicapped if such spare parts and supplies were financed by stock funds and were required to be purchased by the consuming activities at base level upon issuance for use. It is believed that the Air Force considers such a system would endanger the timely servicing of aircraft, because lack of appropriated funds for operation and maintenance might make it impossible for a base to buy the spare parts or supplies from the stock funds when needed, even though the materiel were on hand in stock under stock-fund financing.

In lieu of the use of stock funds, the Department of the Air Force uses its appropriations for procurement and production to finance the acquisition of spare parts as well as the capital-type equipment to which they relate—namely, aircraft, missiles, and other equipment. It is an objective of the Office of Assistant Secretary of Defense (Comptroller) to limit the use of these appropriations to the capital equipment—the end-items and major components such as engines, electronic equipment, etc.

It is believed that the Air Force position on this subject is mainly a reflection of the fact that it is in only the beginning stages of development of its financial-management system for the area of operation and maintenance. While the Air Force has experimented with cost accounting at field and depot level for its operation-and-maintenance programs, the system has not been developed to the point where all costs of operations and maintenance have been included in budgets, made subject to operation-and-maintenance appropriations, and covered by the normal method of budgetary control under appropriations through allotments to the operating activities. Only part of the operation-and-maintenance costs are so budgeted and controlled.

Further progress will be required in the Air Force, as well as Army and Navy, in the development of the financial management system for the area of operation and maintenance under Department of Defense Directive 7040.1, which was issued by the Secretary of Defense on May 29, 1959, pursuant to the requirements of Public Law 863, 84th Congress, 2d session. By this directive each military department is required, under a time-phased program in terms of specific projects, subject to the supervision and review of the Assistant Secretary of Defense (Comptroller), to develop a complete financial management system for operation and maintenance, including budgeting and accounting for all costs of operation and maintenance, including the use of spare parts and other supplies, notwithstanding that the costs of such materiel are financed under other appropriated funds. Directive 7040.1 requires that operation-and-maintenance costs funded under other appropriations will be separately budgeted and accounted for.

In effect then, it appears that the major reason for the Air Force dislike for the use of stock funds for financing spare parts is not from the standpoint of the stock fund itself as an instrument of inventory management, but from the standpoint of the consumer appropriations.

In the area of general supplies, there are certain reasons why the Air Force does not have as much need for stock funds as the other two departments. For example, certain general supplies are already being, or will be obtained, from single managers who are financed by stock funds, by Air Force bases at retail levels. Furthermore, the Air Force already has a stock-fund division for a substantial amount of general supplies at the wholesale level, to the extent that supplies are not covered by single-manager assignments. Moreover, a substantial amount of general supplies (more than for the other military departments) is acquired by local purchase and by purchase from General Services Administration. Under each of these conditions, Air Force bases finance acquisition of general supplies for stock, as well as use, from their allotments of operation-and-maintenance funds.

In the development of the financial management system for operation-and-maintenance programs, it is possible to budget and account at base level for procurement of consumable materiel from wholesale stock funds of the single managers, as well as for the use of the materiel.

The Department of Defense has no objection to the alternative use of operation and maintenance appropriations to finance base level procurement of general supplies, including procurement from General Services Administration, single manager stock funds, and Air Force owned wholesale stock funds, if that practice is desired by the Air Force.

The Department of the Army uses stock funds at the wholesale or depot level to finance inventories of all consumable materiel, except aircraft spare parts and ammunition, and it is expected in the near future to commence the use of stock funds to finance inventories of aircraft spare parts. In addition, in the Third Army area in the United States, a separate stock fund division is being tested, covering retail stocks at post level. However, management of this fund is subject to higher level supervision of the Deputy Chief of Staff for Logistics.

If comparison of these two methods of financing retail stocks (operation and maintenance vs. stock funds) indicates the superiority of the use of the stock fund, it is expected that the stock fund principle will be extended to other Army areas, with the elimination of financing of inventories of consumable materiel under the operation and maintenance appropriation, leaving, however, the cost of use of such materiel financed under that appropriation.

The Department of the Navy has long followed the practice of carrying all inventories, including those at retail level, in a stock fund under central control. It follows the policy that strong central control of all inventories, including retail inventories, is desirable. The Navy has extended the use of the stock fund to finance all kinds of spare parts except aircraft spare parts. Ships, electronic, and ordnance spare parts are included.

The Department of the Air Force appears to believe that central inventory managers should not participate in the management and control of stocks at the retail level—that higher level inventory control should be continued to depot-level or wholesale stocks. This is probably one reason for the lack of enthusiasm in the Air Force for the use of stock funds to finance retail-level stocks.

OCTOBER 20, 1950.

Mr. THOMAS J. JENKINS,
Director, Surveys and Investigations,
Committee on Appropriations, House of Representatives.

DEAR Mr. JENKINS: As requested by your letter of September 2, 1950, information is furnished in the attached memorandum with respect to:

Statement of views of the Office of Secretary of Defense concerning advantages and disadvantages of stock funds as a management tool for inventory and financial control, compared with other systems.

Policy and ultimate objectives of the Office of Secretary of Defense concerning the use of stock funds by the military departments.

Members of my staff will be glad to answer any further questions with respect to these matters or to elaborate on any of the points discussed in this letter.

Sincerely,

JOHN M. SPRAGUE,
Deputy Assistant Secretary of Defense.

BACKGROUND—ALTERNATIVE SYSTEMS OF FINANCING INVENTORIES OF CONSUMABLE MATERIEL

Stock funds

When stock funds are used to finance procurement and inventories of consumable materiel at all levels, users or buyers of this materiel are required to pay for issues at cost.

Users whose operations are financed under appropriated funds must bear expenditure charges against their respective allotments as well as budget for the cost of materiel consumed. This means also that appropriations must be obtained for and funds apportioned to the respective military departments based upon budgets which include the cost of the consumable materiel used.

Stock funds receive reimbursements for issues of materiel, both from customers who pay for materiel from their appropriated-fund allotments and Government personnel or other authorized purchasers to whom materiel is sold (for example, clothing). The stock fund is used to finance replenishments of stock.

The purchase-and-sales cycle, or turnover of stock and cash, gives the stock fund the characteristic of a revolving fund. Appropriations would be required for additional working capital when needed to finance increased inventory levels.

On the other hand, appropriation-rescissions are made to reduce the capital of stock funds as stock levels are required to be reduced and unneeded Treasury cash balances are generated in the stock fund. Appropriation-rescissions often take the form of congressional authority to transfer unneeded funds from the stock fund to other appropriated funds, in lieu of new appropriations thereto.

Budgets for stock funds are required to be submitted to the Congress in the President's budget. These budgets are different than those submitted in support of appropriated funds; they are especially designed for congressional review of stock-fund operations and future capital requirements.

Operating budgets for stock funds are required by the Bureau of the Budget and the Office of the Secretary of Defense as the basis for review and approval or adjustment of the budget as a means for overall financial control of the use of stock-fund capital. The apportionment method has been used generally as a means of overall control. Under this method there is an overall limitation (or separate limitation by each materiel category) placed upon a military department's authority to incur obligations under its stock fund for procurement for the fiscal year. However, in the case of two stock-fund divisions (one in Army and one in Air Force), exemption from apportionment has been granted by the Director of the Bureau of the Budget as a test of a different means of control by the Office of the Secretary of Defense. Under the alternative control, there is a limitation on the net stock-fund capital of each division, including cash as well as inventories, together with approval of the operating budget (including the buying plan) under the condition that it may be revised currently (within limits) by the military department concerned, commensurate with changes in actual sales as compared with budget forecasts. (This alternative provides greater flexibility to the manager of each such stock-fund division, but still provides a means of control which it is believed will prove effective.)

Within each military department under either of the alternative methods of control outlined above, there is a required procedure which includes development of an annual operating budget for each stock-fund division by the manager thereof, with review and approval or adjustment at top level within that department. Current revisions during the year are provided for.

A stock-fund budget includes the following for each category of materiel:

- (a) Forecasts of sales (issues).
- (b) Development of stock levels and onorder requirements at end of fiscal year.
- (c) Budget for procurement requirements (based upon sales forecasts and stock-level and onorder requirements--(a) and (b)) after considering inventory onhand and materiel onorder at the beginning of the period.
- (d) Budget for cash receipts, cash disbursements, and required cash balances consistent with (a) and (c).
- (e) Projection of statement of financial condition of the fund at the end of the fiscal year.

Monthly and quarterly reporting of stock-fund operations is required at all levels with respect to performance as compared with approved budgets and limitations for each stock-fund division.

Appropriated funds for procurement

When procurement of consumable materiel (such as spare parts) is financed under a no-year appropriated fund for procurement and production, the users of the materiel receive it free without charge to their respective allotments from appropriated funds for operation and maintenance, or for research and development, or otherwise (generally called consumer funds).

Under this condition, appropriations and apportionments of the respective military departments for consumer funds do not include amounts budgeted for the use or consumption of such materiel. Likewise, consumer fund-allotments to operating units do not include amounts budgeted for use or consumption of materiel. Thus there is no consumer fund-control over use or consumption of materiel through appropriations by the Congress, apportionments by the Bureau of the Budget, fund authorizations by the Secretary of Defense, and internal funding within a military department (allocations and allotments) all as provided for administrative control of funds under the Anti-Deficiency Act (sec. 2679 R.S.) when appropriations cover the cost of materiel consumed.

With respect to the appropriated funds which finance procurement and production of consumable materiel, there is, of course, the normal method of fund

control of procurement obligations and expenditures through appropriations, apportionments, and internal funding actions, based upon operating budgets, in accordance with section 3070.

Sales of consumable materiel would be reimbursable only when made to another military department, another Government agency, the military assistance program, Government personnel (when authorized), industrial activities financed under industrial funds, and non-Government agencies (when authorized). Such reimbursements would be credited to the appropriated fund which finances procurement and be available only to that extent to finance replenishment of stock. Allowances would be made for such reimbursements in budgeting for additional appropriation requests for procurement in order to avoid enhancement of appropriations. Allowances for such reimbursements would also be made in budgeting for apportionment and internal funding within the Department of Defense.

Appropriations for Defense procurement and production are no-year in character, suitable to the continuing character of the long leadtime involved in these programs. The unobligated balances of these funds do not expire at the end of a fiscal year. New appropriations are additive to the unobligated balances.

Defense appropriations for procurement and production are basically for capital-type materiel such as ships, aircraft, missiles, other weapons, combat vehicles, etc. This type of materiel is not expended immediately when put to use, and hence the cost of issues for use, or the cost of materiel ultimately scrapped or otherwise disposed of, is not appropriately chargeable to consumer funds. The use of the materiel is appropriately controlled physically through tables of allowances or similar specific allowance documents and not through budgetary or other fiscal means. Hence, the problems of management control in this area are not at all similar to consumable materiel, in which case the control of use or consumption by budgetary means is very important.

Budgets in support of requests for new appropriation, apportionment, or internal funding under procurement and production appropriations should include all of the elements of stock-fund budgets so far as concerns the following with respect to consumable materiel:

- (a) Forecast of issues (but separated as between reimbursable and non-reimbursable).
- (b) Development of stock levels and on-order requirements at the end of the fiscal year.
- (c) Budget for procurement requirements as a basis for needed additional obligation authority.
- (d) Estimated cash disbursements and reimbursement collections.

Budgets in support of requests for new appropriations, apportionment, or internal funding under procurement and production appropriations, with respect to capital-type materiel, should include all of the foregoing elements, to the extent applicable, but such budgets are generally more complicated because of the longer leadtime and other special factors such as progress payments and separate procurement and assembly components.

Appropriated funds for operation and maintenance

When appropriated funds for operation and maintenance are used to finance procurement and inventories of consumable materiel, the appropriations are made upon the basis of including obligational authority required for procurement (as well as for services and other charges)—not upon the basis of cost of materiel consumed as when stock funds are used—and in contrast to exclusion of any costs whatever for consumable materiel, as when separate procurement and production appropriations are used.

In the case of centrally procured consumable materiel, the operating agency (s) responsible for procurement is allotted operation and maintenance funds for procurement, based upon an operating budget—the same as when procurement and production appropriations are used to finance procurement. And similarly, it is expected, the consumer activities would receive materiel free without charge to their allotments, with avoidance of fund control over their budgets. Inasmuch as there is general opposition in the military departments to the use of operation and maintenance appropriations for financing central procurement of consumable materiel and inventories (at least at the wholesale level) this condition will not be assumed to exist for purposes of comparison of alternative systems.

However, in the case of locally procured consumable materiel, each local operating unit is allotted operation and maintenance funds covering, in addition

to all other costs, obligational authority for local procurement representing the sum of: (a) cost of materiel used, (b) plus or minus the change in inventory, and (c) plus or minus the change in contracts and orders outstanding. Cost-based budgets have been designed to cover all of these factors in the case of locally procured materiel under operation and maintenance funds. Locally procured materiel is normally considered to be that which is procured from vendors outside the military department for local needs at the operating unit level. However, locally procured materiel may be considered also to include procurement from depots of centrally procured consumable materiel financed under stock funds only at the depot or wholesale level—the financial control practices would be the same at the operating-unit level.

Operation and maintenance appropriated funds are 1-year funds and unobligated balances expire at the end of each fiscal year.

ADVANTAGES OF USE OF STOCK FUNDS OVER APPROPRIATED FUNDS

1. *Congress controls total operation and maintenance costs through appropriations.*

When stock funds are used, at least at the wholesale level, the Congress exercises control over operation and maintenance costs, including the cost of materiel consumed. The Congress also exercises indirect control over procurement under stock funds through appropriations for stock-fund capital and rescissions, rather than through direct appropriation for procurement. When other appropriated funds are used to finance procurement of materiel, and issues to consumers are free, operations and maintenance appropriations do not cover cost of materiel consumed. Without the use of stock funds, therefore, the Congress would have no part in control of use of materiel.

2. *The Bureau of the Budget and Office of the Secretary of Defense control total operation and maintenance costs through the apportionment and fund authorization process.*

The same situation exists for the Bureau of the Budget and the Office of Secretary of Defense as for the Congress (see par. 1).

However, where stock funds are not used, a method has been proposed to exert control over operation and maintenance costs represented by free issues of consumable materiel centrally procured under appropriated funds. This method involves a cost limitation on total costs parallel to fund limitations on obligations in connection with apportionment action.

3. *Within each military department total operation and maintenance costs are controlled through funding actions only when stock funds are used, at least at the wholesale level.*

The same situation exists in making allocations and allotments within a military department as for higher levels (see pars. 1 and 2).

Where stock funds are not used, the proposed method (par. 2) of controlling total operation and maintenance costs, including free issues, through parallel total cost and obligation limitations, would be extended to budgetary control within a military department.

4. *Where stock funds are used, at least at the wholesale level, budgeting, control, and accounting for total operation and maintenance costs is simpler, more economical, and effective at every level, than when there are free issues of consumable materiel and only the remainder of operation and maintenance costs is subject to consumer fund control.*

As indicated in paragraphs 2 and 3, a method has been proposed, where stock funds are not used, to control total operation and maintenance costs at every level, including free issues, through separate total cost limitations parallel to obligation limitations in fund apportionments, allocations, and allotments. Where stock funds are used, obligation limitations through apportionment and funding actions, cover total operation and maintenance costs, including cost of materiel consumed; in this case separate budgeting, control through dual limitations, and separate accounting (including reporting) for the two limitations is avoided.

Separate budgeting, control, and accounting for total costs and obligations means separate budgeting, control, and accounting for funded costs and unfunded costs (represented in this case by the cost of free issues). This is cumbersome, burdensome, and more expensive to operate. The separate control over total costs (and therefore unfunded costs) also might prove to be weak and subject to undisciplined violations because it is not subject to the statutory discipline of sec-

tion 3679 Revised Statutes, the Anti-Deficiency Act. In that case, it is likely budgeting for unfunded costs and total costs would be of poorer quality than budgeting for funded costs and obligations.

Where stock funds are used only to finance "wholesale" stocks in depots, the consumers must budget and be funded under their allotments for acquisition of their requirements from depots for "retail" stocks. In cost-type budgeting this means they must budget and be funded for the sum total of (a) cost of materiel to be consumed, and (b) change in inventory. The sum total is funded under each installation's allotment and there are no unfunded costs. This provides financial flexibility, but presents other problems in funding at each installation for changes in inventory—a problem which is simplified when the stock fund is used to finance "retail" stocks as well as "wholesale" stocks.

5. When consumers pay for costs of materiel consumed, they will get better service than when materiel is issued free.

When consumers rely upon others, remote from the point of need, to supply their needs free of charge, together with the needs of other competing activities, they are bound to find very often that they will not be furnished for lack of funds to the supplier. Ability to pay from its own funds will generally insure automatic responsiveness to consumer need and result in simple self-policing of competing demands.

6. Where stock funds are used and consumers are funded for total operation and maintenance costs, there are positive management incentives for economy and efficiency which are absent when materiel is issued free.

There are good management incentives when consumers are fully funded for their total operation and maintenance costs—incentives which are not available when a large part of the costs are unfunded. This is because they each have only so much available funds and have the flexibility to decide for themselves how to apply the funds most effectively to accomplish their missions, for which objective they are militarily accountable. In this circumstance, first things must come first and cost consciousness is engendered. Human nature will work for these objectives and not against them.

Where some consumable materiel is issued free (because it is not financed under stock funds), consumers have no compulsion nor incentive not to be wasteful. In the past and presently there is no form of budgetary control over the unfunded cost of materiel which is issued free. This wastefulness would be minimized if additional budgetary controls were exerted over total costs (and therefore unfunded costs).

Where there are dual budget limitations on costs (total costs and funded costs), a manager is restricted in his freedom of action to exercise alternative choices to accomplish his mission effectively. In some cases he may be driven to wasteful practices. For example, in some cases, he might use more expensive substitute materiel which is free issue than would be available from stock funds more cheaply if he is short of funds to buy it. Full funding of costs to a consumer under one allotment provides the maximum degree of financial flexibility which makes good management possible.

7. When stock funds are used, granting of credits to consumers for materiel returned to the supply system provides an incentive to obtain utilization of such materiel rather than let it go to waste.

Credits to consumers for materiel returned to stock funds add to their allotment authority for obligation and expenditure for the general purposes of the allotment. Hence, these credits may be applied against purchases of other materiel from the stock fund, for local purchases, or for the cost of services. Without these credits, and with a system of free issue of such materiel, there is no incentive to local user activities to return to the supply system, consumable materiel which was drawn down but was not in fact used or which after use is repairable.

8. When stock funds are used, reduced prices of materiel in long supply provide an incentive to consumers to buy the materiel to meet their needs rather than buy more expensive although perhaps more desirable substitutes.

This incentive is absent when consumers are not funded for their total costs. It is applicable mainly in the case of common, non-technical-type materiel. Without this incentive, when materiel is issued free without restrictions, much materiel can be wasted, especially after newer styles and more desirable materiel becomes available.

9. The use of stock funds, at least at the wholesale level, means that total amounts of appropriation requests for all consumer funds will fairly represent

the total costs of the programs financed by the respective appropriations. If other appropriated funds are used to finance procurement of consumable materiel, the consumer appropriations will not fairly represent the total costs.

It is desirable not to mislead the public nor the Congress as to the total cost of programs financed by a given appropriated fund, as may result if part of the cost is financed under another appropriated fund. This is especially significant in the comparison of appropriations to two military departments for a similar purpose. For example, at present the Army "Operation and maintenance" appropriation includes the cost of all spare parts consumed in maintenance of its equipment, because Army finances such materiel under the stock fund, except for aircraft and missile spare parts, the procurement of which is financed under the "Operation and maintenance" appropriation. On the other hand, the Air Force "Operation and maintenance" appropriation excludes several hundred million dollars cost of spare parts and supplies, the financing of which is under "Procurement and production" appropriations.

10. *The use of the stock fund to finance inventories of consumable materiel provides an incentive to a central inventory manager to manage his stocks and procurement more effectively than if procurement of the materiel is financed under appropriated funds.*

By effective inventory management is meant maintenance of well-balanced stocks, effective distribution of stocks by location, liquidation of dead stocks, and the related procurement aspects of inventory management in terms of determining minimum requirements to be procured to meet needs without initiating procurement action before it is necessary. Associated with effective inventory management is effective financial management in such terms as reasonably accurate sales or issue forecasts, determination of minimum financial requirements to finance inventories, determination of minimum amounts of on-order requirements, budgets for procurement requirements, cash budgets, maintenance of effective budgetary control over procurement and other obligations, minimization of losses on disposal of stocks, minimization of the cost of storage of materiel, etc.

The use of stock funds requires the inventory manager to manage more effectively than if procurement of the materiel is financed under appropriated funds for such reasons as the following:

(1) Limitation of stock fund capital means the manager has just so much to work with. He must carefully plan and control the use of his capital in terms of balanced stocks, minimum stock levels, and effective distribution of stocks by individual items. He must also minimize inventory losses and avoid investment in dead stocks so far as possible. Failure to do these things would make it difficult for him to meet customers' needs, for which he would be militarily accountable.

(2) For the same reason, sales must be relied upon to provide reimbursements to pay procurement bills, rather than definite appropriations. And special authority exists to anticipate reimbursements to the stock fund for the procurement leadtime period without regard to the end of the fiscal year. Hence issues or sales must be accurately forecast with periodic revisions as a basis for financial planning and budgeting for procurement in order to keep the stock funds solvent. And reimbursements for sales of materiel in long supply are appropriately found to be most useful in buying material for which there is need.

(3) Cash budgeting for receipts from forecasted sales must be reasonably accurate and based thereon, payments to vendors and deliveries of materiel under procurement contracts and orders must be scheduled month by month in advance during the period of procurement leadtime in order to keep the fund solvent and not violate section 3679.

(4) Orderly and timely procurement budgeting and control of obligations is required for the reasons stated in the preceding paragraphs.

(5) The continuing availability of the stock fund means there will be no incentive to obligate funds at the end of a fiscal year such as exists under 1-year appropriated funds for O. & M. programs. To the extent stock funds are subject to annual apportionment, this reverse incentive is applicable the same as under no-year appropriated funds for procurement, but in a reduced degree because of the other restraints stated above.

Substantial evidence of the effectiveness of the stock fund in reducing stock levels is the fact that liquidations of stocks in long supply have been the principal reason for generation of excess cash in the funds. Such excess cash in the

amount of nearly \$5 billion has been the basis for rescissions or transfers to other appropriated funds (in lieu of new appropriations) by the Congress through the fiscal year 1960.

When procurement of consumable materiel is financed under separate no-year appropriated funds, there are definitely known amounts available (except to the extent of estimated reimbursements for a much narrower area). This system of financing results in relatively rigid programing, budgeting, and fund control of procurement on an annual cycle with emphasis on use of available funds and subordination of attention to forecasts of issues and optimum stock levels—tending to lead to the reverse results from those stated in the foregoing paragraphs.

As indicated in the first section on background, the problem of inventory management of capital-type materiel, having long life, is different than stocks of consumable materiel which are expended as they are issued. The use of capital-type materiel can be physically controlled item by item, but use of consumable materiel must be controlled through consumer budgets. Hence, the weaknesses of appropriated funds for financing consumable materiel, as outlined above, are not applicable generally to the area of capital-type materiel which is the normal subject of appropriated funds for procurement and production. However, at the same time it should be observed that the two different sets of basic management problems for these two areas of materiel means that the financing of both under the same appropriated fund tends further to weaken the appropriate attention to the peculiar problems of budgeting and budgetary control for procurement of consumable materiel.

In summary, the use of a stock fund or division thereof, creates a semi-corporate position for an inventory manager and permits him to function like a wholesaler in relation to the consumers. He is permitted and compelled to be like a merchandiser in the commercial sense. The stock fund permits the manager to more effectively correlate procurement and stock levels with consumer requirements.

11. *The use of stock funds provides financial flexibility in management of inventories of consumable materiel, with minimization of stock levels, which does not exist when appropriated funds are used to finance such materiel.*

As may be appreciated from the discussion in paragraph 10, the requirement for reimbursements for all issues of materiel from stock funds for purposes of consumption provides funds for procurement to replenish stocks commensurate with issues. If such issues are greater than forecast, the budget for procurement may be increased administratively during the fiscal year without processing a supplement appropriation request as would be required if materiel were issued free. The stock fund will accommodate an increased turnover of stocks without increase capital, within certain limits.

Conversely, the use of the stock fund with continuously revised procurement budgets geared to sales forecasts, as modified by actual sales experience, provides an incentive for minimizing inventories and holding them at authorized stock levels, instead of increasing the inventories as issues fall.

12. *The use of stock funds insures the protection of mobilization reserve stocks for the purpose intended.*

Because reimbursements are obtained for all issues under stock funds, all stock levels may be protected, including mobilization-reserve stocks. Where there is a decision to reduce or augment mobilization reserve stocks, stock fund programing procedures clearly reveal the circumstances permitting management to specifically judge the appropriateness of such actions.

When appropriated funds are used to finance consumable materiel and issues are made free, experience has shown that mobilization-reserve stocks may be eaten in part and require delay in replacement until subsequent appropriation requests may be processed.

13. *The use of the stock fund facilitates improvements in supply organization which result in economy.*

In the Navy the designation of the Bureau of Supplies and Accounts is responsible for the operation of the Navy stock fund expedited unification of the Navy's supply system with respect to consumable materiel, while preserving the technical cognizance of the other bureaus in the materiel categories peculiar to their respective fields of responsibility.

Complete unification of a supply system in one military department means:

- (1) Establishment of uniform systems and procedures.
- (2) Elimination of item duplication for inventory control and procurement where more than one operating agency is engaged in supply operations.
- (3) Centralization of inventory control and procurement of major items of materiel to the greatest possible degree on a departmentwide basis—both wholesale and user level.

In the Army, the use of one stock fund division in the 3d Army pointed the way toward unification of the Army's supply system in posts, camps, and stations and overcoming the difficult situation at that level resulting from having to follow seven different supply systems (one for each technical service). At the same time, each technical service is given a separate wholesale stock fund division to finance the stocks of consumable materiel in its own depots. Under this system, the Deputy Chief of Staff (Logistics) has been assigned responsibility for overall staff supervision of stock fund operations of the 3d Army Division, although it does not have command over 3d Army (command is Continental Army Command). Of course DCS (LOG) already exercised control over the stock fund operations of the technical services which are under its direct command. This pattern would be applicable on a much wider basis to the use of the Army stock fund for other Armies in the Zone of Interior and oversea commands.

14. *The operation of single supply systems for the entire Department of Defense at the "wholesale" level for common categories of materiel under "single-manager" assignments, has been facilitated by the use of stock funds.*

A separate unified supply system at the wholesale level has been created for the entire Department of Defense with respect to each of the several major common categories of materiel. In each case there is a single-manager assignment to the Secretary of a military department. The principal separate assignments have been as follows:

Army:

 Clothing.

 Subsistence.

Navy: Medical and dental supplies.

In each of these three cases, a separate supply manager has been designated within the assigned military department to operate the wholesale system for the entire Department of Defense. His office procures and manages stocks of materiel for all of the military departments. In each case a separate stock fund division is used for the purpose. Sales are made to the respective military departments upon transfer of materiel to them for their "retail" stocks or for use. This system eliminated separate wholesale systems in the three military departments.

DISADVANTAGES OF USE OF STOCK FUNDS AS COMPARED WITH APPROPRIATED FUNDS

(NOTE.—The statement of disadvantages made below includes allegations and beliefs of others which are not necessarily valid nor based upon complete appreciation of problems, as will be shown in the discussion of each point)

1. *The military forces risk to a greater degree the grounding of aircraft or non-availability of equipment for lack of spare parts, if such materiel is financed by a stock fund. However, the degree of risk is proportionate to the quality of financial management, especially in coordinating of programing, budgeting, and funding, and with good management the risk should not be significant.*

Military personnel generally have a real fear of impairing military readiness by reason of aircraft or other equipment being even temporarily out of service for lack of parts. They are accustomed to free use of spare parts as long as they are in stock, and they fear the possibility of being unable to use parts actually in stock at some installation or installations if such parts are financed under a stock fund which must be reimbursed by the consumer from his allotted funds. This fear is most acute in the area of aircraft operation and maintenance where spare parts have not yet been financed under stock funds.

This fear, in the aircraft area, is based upon present conditions which are characterized by the following:

(a) Operating budgets up to now have not included estimates for use of spare parts. Budgeting for use of spare parts is not easy, especially at any one installation. There are many who would like to avoid forever budgeting for the use of spare parts by consumers.

(b) Operating budgets generally have not been adequately coordinated with programing. Different people are involved.

(c) The availability of operation and maintenance funds has been seriously curtailed in favor of "hardware" procurement.

(d) In the allotment process, funds have been spread thin to meet budget needs without first making hard decisions in reducing the scope of operation and maintenance programs.

(e) The local commander has not had up to now much flexibility in use of his various resources. He has had minute controls over use of funds and personnel from higher level. Military people do not visualize a change, although it is in the making.

Now that the decision has been made to budget for use of spare parts (at least in operating budgets, if not the President's budget), and to limit total costs at every level (including unfunded costs, if any), it is necessary to face up to this problem whether stock funds are used or not to finance spare parts. It is appropriate to time-phase implementation of this decision. Experience in budgeting must precede the use of total cost limitations; it is desirable that experience in accounting for costs should precede budgeting; and experience in the use of total cost limitations may have to precede the application of funding total consumer costs.

Likewise, it is important to time-phase the broadening of granting financial flexibility to the local commanders.

Above all, it is important to integrate operation and maintenance programing and budgeting, to make timely program decisions, to develop sound operation and maintenance budgets, and to provide funds to match approved budgets.

When these actions have been taken, it is believed the fear of consequences of funding total consumer costs and using stock funds to finance spare parts will disappear; there will be awareness of the meaning of financial flexibility to the local commander—namely, in that case, he will not need to depend upon the supply system to have funds to supply parts to him: that he will unquestionably have funds to meet his real needs—that if anything must be sacrificed, it will be of low order of priority. From an opposite viewpoint, the use of stock funds and consumer funding would provide an incentive to integrate programing and budgeting and expedite program decisions, because it would be in everybody's interest to do so; failure in these respects would cause difficulties which would have to be avoided.

2. *It is easier to get appropriated funds for procurement and production than for operation and maintenance. Hence spare parts should be procured under procurement and production appropriations and issued free.*

This has been true in the past, especially in the case of spare parts procured concurrently with the end items upon the basis of a percentage of the dollar value of the end items.

Provisioning for spare parts is being tightened up. At best, the statement of the disadvantage is specious.

3. *The use of stock funds results in increased paperwork with greater administrative costs.*

In the main increased paperwork in the materiel area has been in Army and Air Force in recent years. It has been attributable in the main to the introduction of financial accounting for all materiel whether or not it is financed under stock funds. It is believed that the results are worthwhile in reducing stock levels and procurement, especially in the area of consumable materiel, and that the increased discipline of stock funds has brought greater benefits than where they have not been used.

Another reason for increased paperwork in the consumer area is the budgeting and costing of the use of consumable materiel by responsibility area, but this is true whether or not stock funds are used to finance the materiel. As indicated under the heading of advantages, the use of stock funds and consumer funding of cost of materiel to be consumed actually reduces paperwork as compared with the condition which exists when the materiel is issued free.

It is true that there is room for improvement by reduction in paperwork in financial accounting for inventories and cost accounting for issues. And work is being done in this respect. For example, there is a general movement to eliminate detailed accounting for small issues—this involves item accounting as well as financial accounting. There are cases also where there is unnecessary work which should be eliminated in central clearance of charges for stock-fund issues

to consumer activities; correction in some cases involves clearance of charges at station level.

4. *Apportionment control of procurement obligations under stock funds tends to destroy the advantages of the stock fund from the standpoint of improving supply management.*

This is really a criticism of a particular form of budgetary control employed at the level of the Bureau of the Budget and Office of the Secretary of Defense. It is not necessarily a criticism of the stock-fund system.

Stock-fund apportionments place absolute annual limitations on obligations which may be incurred—the same as for procurement and production appropriations. They are based upon approved operating budgets. Reapportionments are required when operating budgets are revised during the year.

Justifiable criticism of the method is believed to pertain mainly to the reapportionment requirement, inasmuch as it impairs a stock-fund manager's flexibility in making prompt budget revisions commensurate with changing sales forecasts during the year. It is not believed criticism is justifiable to the extent it is based upon the objective of eliminating higher level administrative review, adjustment, and approval of stock-fund budgets. Higher level administrative control is required.

Although the Director of the Bureau of the Budget has the legal authority to waive exemption of stock funds from apportionment requirement, he has not granted general exemption because experience has shown the need for it as a means of insuring satisfactory financial management.

Exemption has been granted on a trial basis for the Third Army Division of the Army stock fund and the Commissary Division of the Air Force stock fund. Alternative controls are required to be exercised by the Office of Secretary of Defense, each designed to increase flexibility of the stock-fund manager. Under the alternative controls there is a limitation on stock-fund capital of each division, including "cash" as well as inventories, together with approval of the operating budget (including the buying plan) under the condition that it may be revised currently (within limits) by the military department concerned, commensurate with changes in actual sales as compared with sales forecasts, without obtaining prior OSD approval of the changes.

It is the view of the Office of Secretary of Defense that it would be desirable to exempt stock funds from apportionment as the respective stock-fund managers prove their ability to properly manage the funds and as more flexible methods of establishing higher level controls are established and proved to be effective.

5. *It is believed by some that financing "technical" materiel, such as aircraft spare parts, under a stock fund is a mistake because of stock obsolescence losses which are bound to occur. They believe such losses might impair the solvency of the stock fund unless covered by specific appropriations to restore capital, and that requests for such appropriations would be looked upon unkindly and perhaps refused. There are several fallacies in these views.*

While it is true that stock losses are bound to occur to the stock fund upon disposal of surplus obsolete spare parts, such losses should be minimized because:

(a) It is believed this possible result would actually be reduced because the stock-fund manager would be more careful in making purchases than if all such procurement were financed by appropriated funds.

(b) The cash loss to the stock fund would be reduced through use of "surcharges" in the sales prices for materiel actually issued.

Even if stock obsolescence losses do occur to the stock fund, there is no requirement for direct appropriations to restore the fund because there is no requirement to replace the particular obsolete parts. However, as an independent matter, appropriation requests for increases in stock-fund capital may be required from time to time to cover the initial investment in stocks of spare parts for new equipment items. This has always been normal procedure when appropriated funds have been used to finance procurement of spare parts.

It is true, however, that appropriations requested to increase stock-fund capital should be for the total net capital requirements in the light of justification of all stock levels. In this respect, past gains and losses in capital, as shown in stock-fund reports, would be particularly scrutinized, but this would be a healthy thing.

These matters were thoroughly considered in developing and issuing stock fund regulations (DOD Directive 7420.1) and related instructions concerning criteria for materiel to be financed by stock funds (DOD Instruction 7420.5).

6. If stock funds are used to finance concurrent procurement of spare parts, procurement contracts will require citations of two funds (a) stock fund, and (b) procurement-and-production appropriated fund, for the major equipment. This results in complicated accounting requirements for both the procuring agency and the contractor under "indefinite-price" contracts which are common in this area. This admitted difficulty may be avoided, however.

A method has been developed which permits citation of only the principal fund on a contract which is priced on a basis other than firm fixed-price. This method would permit the use of stock funds to finance the concurrent spare parts which are bought on a contract which cites only the procurement-and-production appropriation for both the major equipment and spare parts. An adjustment would be made upon delivery of the spare parts to the stock fund by means of reimbursement to the procurement-and-production appropriation for their cost.

7. In case of all-out war, the use of stock funds and consumer fund control would have to be abandoned completely. In case of limited war, the use of stock funds and consumer fund control would have to be abandoned in the combat area. There are some who believe that all financial controls should be the same in peacetime and in all areas as in all-out emergencies; this view is considered to be erroneous.

In all-out emergency areas, financial controls generally must be drastically reduced. However, it is not believed wise to use this fact as a basis for justification of avoidance of financial controls in peacetime or in areas not subject to emergency conditions. It is necessary to avoid waste and economize in order to use resources effectively in providing maximum military readiness.

POLICIES AND ULTIMATE OBJECTIVES CONCERNING THE USE OF STOCK FUNDS OF THE MILITARY DEPARTMENTS

Department of Defense regulations governing stock fund operations authorize but do not direct the use of stock funds by the military departments to finance all inventories of consumable materiel. It has been and is presently the objective to extend as expeditiously as feasible the use of stock funds on a uniform basis for the three military departments based upon maximum appropriate use of this authority. For example, it is not presently considered that it would be appropriate to finance ammunition under the stock fund.

To a considerable degree it is believed that achievement of the ultimate objectives in the use of stock funds will depend upon the satisfactory implementation of the Department of Defense program for improvement in financial management, especially in the area of operation and maintenance appropriations. This is a program in which there is participation by the Bureau of the Budget, the General Accounting Office, and the Treasury Department under the joint accounting improvement program. It is designed to implement Public Law 803, 84th Congress, as well as title IV of the National Security Act, as amended, with respect to—

- (a) The use of cost-based budgeting.
- (b) The use of a consistent account structure for purposes of programing, budgeting, and accounting (including budgeting and reporting).
- (c) The use of the accrual basis of accounting with financial accounting for property as an integral part of the system.
- (d) Simplification of funding practices.

Department of Defense Directive 70-10.1, program for improvement in financial management in the area of operation and maintenance, was signed by the Secretary of Defense on May 29, 1959. This directive establishes policies and principles to be followed in this area, and it requires establishment of a time-phased schedule for implementation in conformity with Bureau of the Budget Bulletin No. 57-5. When approved by the Assistant Secretary of Defense (Comptroller), these time-phased schedules will be carried out under the supervision of his office.

Additional directives with respect to improvement in financial management will be issued in due course with respect to the areas of construction, military personnel, procurement and production, and research and development.

It is not anticipated that specific orders will be issued with respect to the timing of the installation of any specific extension of the stock fund in one of the military departments, but consideration of such timing must necessarily be

one of the aspects to be included in the time-phased schedules for implementation of DOD Directive 7040.1.

DOD Directive 7040.1 does not settle the question of the use of stock funds. It would permit any one of the following methods of financing inventories of consumable materiel:

- (a) Stock funds at all levels for all stocks.
- (b) Stock funds at depot level; operation-and-maintenance funds for retail stocks.
- (c) Stock funds, excluding local purchased materiel which would be financed from operation-and-maintenance funds at installation level.
- (d) Procurement-and-production appropriations for centrally procured materiel; operation-and-maintenance funds for local procurement.
- (e) Operation-and-maintenance appropriations for centrally procured as well as locally procured materiel.

However, cost-based budgeting and accounting would be required for costs of materiel consumed under any one of the alternatives. Under alternatives (d) and (e), costs of centrally procured materiel would be "unfunded costs" under the operation-and-maintenance appropriations and allotments therefrom.

Here it may be mentioned that DOD Directive 7040.1 defines consumable materiel as distinguished from capital-type materiel consistent with DOD Instruction 7420.5 for stock funds as follows:

Materiel, consumable.—Materiel which after issue from stock is consumed in use or which, while having continuing life, becomes incorporated in other property, thus losing its identity (for example, spare parts). Excludes major components of equipment, such as aircraft engines, ship propeller shafts, and electronic "black boxes."

Note.—It is impracticable to establish by definition a precise dividing line between consumable materiel and capital-type materiel with respect to components of equipment. However, any components of equipment which are susceptible to cost control upon the basis of budgeting and accounting for the cost of consumption should be considered to be consumable materiel, and all other components should be considered to be capital-type materiel.

Materiel, capital-type.—All items of property, except real estate and consumable materiel (q.v.), necessary for the equipment, maintenance, operation and support of military activities without distinction as to their application for purposes of combat, logistical support, or administration.

Thus, by aircraft spare parts is meant those items used in repair of aircraft and aircraft equipment, but excluding major components such as engines and electronic black boxes, which are presently considered to be capital-type materiel appropriate for financing under appropriated funds.

Capital-type materiel would be required to be financed under procurement and production appropriations except for certain equipment authorized to be locally purchased under operation and maintenance funds.

The Department of the Army has installed the use of stock funds to cover all major categories of consumable materiel expected to be financed under stock funds, pursuant to this program, with the exception of aircraft spare parts. However, in the case of certain categories of materiel, stock funds are used only to finance stocks at the depot level which are under the management of the several technical services. However, as a test in the Third Army, there has been installed a stock-fund division which presently includes all of these categories of materiel at nine installations of the Third Army. This stock-fund division, which is under the management of the Continental Army Command, if successful as expected, will be extended to the entire Zone of the Interior. This division includes inventories of all materiel categories in the technical-service stock-fund division, except Transportation Corps; however, it excludes engineer repair and utility supplies which are financed under installation allotments on a local purchase basis. It is expected that additional stock-fund divisions would be established on a similar pattern for depot stocks for oversea commands.

The Department of the Navy has installed the use of stock funds at all shore supply activities on a worldwide basis for all major categories of materiel expected to be financed under stock funds, with the exception of aircraft spare parts. In addition, the stock fund is used to finance consumable materiel carried afloat in fleet issue ships and on a test basis in tender and repair ships. Studies are currently being made in Navy which are considering the extension of use of stock funds to certain combatant-type ships.

The Department of the Air Force has installed the use of stock funds at all levels for categories of materiel which are generally known as common use, but it has not used the stock fund to finance inventories of spare parts or other categories of technical materiel. It has not yet utilized the stock funds to finance general supplies below the depot level nor local procurement of common commercial consumption-type materiel. In this respect, it is likely that the Air Force will find useful some of the methods of operating stock funds developed in the Army and Navy.

Mr. McGUIRE. I do not think they particularly liked the idea.

Representative CURRIS. They did not. That is the whole point of the thing. What difference does it make if they do not like it if it proves to be the better system?

Mr. McGUIRE. I think the Air Force uses it more and understands it better now. Some of the people, who were arguing against the stock fund, now are beginning to recognize some of its merits.

Representative CURRIS. On the other hand, maybe the Air Force is right.

Mr. McGUIRE. The whole stock fund area is getting from our supply point of view, a pretty good review working with the Comptroller's Office. I think we have made some substantial progress in this area.

Mr. RILEY. We have recognized, Mr. Curtis, the differences in the military services on the stock fund for some time.

It is a question, I think, that some of the services may put the wrong kind of items in the stock funds. Maybe another service has not gone far enough.

We really do not know the answer. All I am telling you that our real problem honestly has been getting good solid criteria for determining what should go in and what should stay out.

Representative CURRIS. We are talking about a glaring discrepancy, not something that is just a little bit. We are talking about 3.8 percent use in the Air Force against 93 percent roughly, at least over 90 percent, in the other three services.

Mr. McGUIRE. May I make an observation?

Representative CURRIS. Yes.

Mr. McGUIRE. I would point out to you that if you just take subsistence, clothing, some of those kinds of things that are supplied for the Air Force, these are in stock funds.

Now, obviously, you have to take those out if you have to compare common things. I do not think it will substantially change the picture but it has a bearing.

Representative CURTIS. I was so happy when you made the remark that if you are talking about the same thing it does not matter whether it has an Air Force, Navy or Army uniform on it or not.

Mr. McGUIRE. We are examining this field to see if we can make some improvements in it.

Representative CURRIS. I am very pleased with your overall testimony.

Now, I asked some questions of the Bureau of the Budget. We do not have time to go into it but I am very much concerned about this area of capital goods. The language I use is my own, and I want to be sure I get across to you. In the procurement of machinery, for example, that is used, tool machinery, I gave as a specific example to illustrate the point, the equipment used in the optical shop that the Army was running out in St. Louis, Mo., which requires a lot of very

costly machines. I asked what happened to that machinery when it needed replacement.

The statement was that we simply got it through maintenance and operation accounts but it never was capitalized.

Now, that is the process whereby the military is enabled to go into civilian type business without the Congress and Appropriations Committee realizing they go in there. If they can buy this capital equipment through maintenance and operations accounts. So the question is whether the accounting system now is such so you can catch these capital goods items and question whether their purchase is advisable.

GOVERNMENT COMPETITION IN BUSINESS

Mr. McGUIRE. We are in this program and we are on both sides of the fence on this commercial and industrial competition.

Representative CURTIS. Yes, on the other side I was going to ask you to explain something for that, is this business of getting out of a lot of business you are already in?

I know that a lot is being done on that.

I will say that I think the Congress here in this instance is at fault—this is my judgment—in hampering your attempts to get out of some of the civilian operation.

Mr. McGUIRE. Any new start must be reported to my office.

We have tightened up on what is a new start in this program under the direction of the Bureau of the Budget. This is fundamentally a Bureau of the Budget program, as you know. The specific point you are making, would be the replacement of, let us say, a new cylindrical grinding machine. I am not 100 percent sure I would get at that one, but I do get at it indirectly in this way. I have recently come across several of these cases where a department wants to buy. It is required that they screen the idle machine tool list that we have and we raise the question: What kind of thing is this being used for? and do we have one in inventory that will satisfy our need? There have been many instances of that lately.

We have also had several instances where we stopped procurement of tools because we felt we had adequate tools in packages which we were breaking up. We are seeking to do this, due to our past requirements changes. This results in more production than we can foresee requirements. We are trying to retain only that equipment for which a firm requirement exists.

A great example of this is the Michoud Ordnance plant package for tank engine production. We had a greater mobilization capacity for tank engines than we would need. So we disbanded this plant, diverted the tools to facilities where we needed more efficient tools or else disposed of them.

I am not always in a position to catch this kind of thing. I cannot assure you I will catch every one. I am exposed to it. I think we ought to probably get in it deeper.

Representative CURTIS. I think it would form just like warehousing, and I am very pleased with your figures on that, warehouse space is a good checkpoint to find out overall inventory.

Mr. McGUIRE. That is right.

Representative CURRIS. So this area of expenditures for these goods, for these things, in industry, would be capitalized and called capital goods, is a good checkpoint.

Mr. McGUIRE. I have never understood as a businessman coming in here where it is proper for the Government to be in business, why we do not capitalize these tools and really set aside the reserves so that we can replace a tool when it becomes inefficient—I am sure that Congress wants us to have the best, they have well demonstrated that—that we can sell the old tool and buy a new one.

Now, we have made some steps in this direction in encouraging the services to go into this so that we can offset the sales price of the new tools with the returns of the old tools. This is encouraging them.

I am not speaking in terms of hundred-year-old pieces of equipment.

Representative CURRIS. That is the efficiency in the other direction, from another line, but I think it should be a matter of cost accounting.

Also, if this were set up on good cost accounting, the military would see very conclusively that they cannot—

Mr. McGUIRE. I think it would make it easy for us to get funds from Congress because they would recognize the machine was worn out or inefficient.

Representative CURRIS. One gentleman said in St. Louis the Army probably could make automobiles cheaper than General Motors because they do not have to pay taxes.

Of course, he had not even included his salary as a cost item in his estimates.

Mr. McGUIRE. Let us not make this suggestion.

MOBILIZATION RESERVE

Representative CURRIS. He said, "The Army would have to pay him anyway."

I think if we got some good cost accounting in here on the capital goods, it would be very helpful. Now, my final observation for further comment, and I think you have developed it to some degree, you have talked about the mobilization reserve. In that, of course, we do not necessarily have items that we have inventoried but we check whether we have the production capacity. In other words, there is no sense in grinding something off the production line and storing it if we know that we have the capacity to produce it within a month's notice.

Mr. McGUIRE. I would like to see if I can skirt this.

This is a complicated subject. Obviously, we are talking about mechanics. This is getting into high security areas.

Representative CURRIS. I do not want you to get into that.

Mr. McGUIRE. Fundamentally, what we are trying to achieve with our mobilization reserve is a reserve that will give us capability to execute a mission immediately and replenish the attrition during that mission.

Now, we take into account the pipeline time—how long do you have to take to get a bullet you shoot replaced?

It is obvious if we get into a limited war and we shoot half our bullets we depreciate our position to fight a general war if that should be a factor or if the limited war spread out to greater areas.

So we must consider the production capability.

We are attempting, and I think we are succeeding, in not putting into war mobilization reserves, everything that everybody under any circumstances might conceive of. There are certain long leadtime items you might have more of but short leadtime items you practically have none of, because you can replace them or get them off the shelves of industry.

Representative CURRIS. You are talking exactly of what I was concerned about because I think some of the items in the garbage pails, as I described it, have been purchased unnecessarily from an unrealistic standpoint.

Someone mentioned some friction tape. It happened to be listed on the disposal list as N-1 but they examined it and it was N-1 all right, from the standpoint of never being used, but it was 8 years old and therefore of no use.

I was thinking in regard to that point.

Mr. McGUIRE. I am glad you brought this up. We have also put some work in on the business of the turnover of these stocks. There are certain of these stocks that are perishable.

Now, you have to have, depending on the item, a variable system. Under the former so-called sanctity of the mobilization reserve, you could not segregate the variables.

There are certain items that you can take a calculated risk on a replacement basis to turn them over. We have this problem in food.

Representative CURRIS. That is what the trouble with the hamburgers was.

I will pinpoint what this is and then close up. You see, we have brought out the discrepancy again between the services in their mobilization reserves.

Surely if an item, handtools or whatever it is, is regarded as being all right as a turnover item or short lead item or long lead item, there ought to be some similarity in the various services. Yet here is the percentage distribution of GSSM inventory held by military services by retention categories. Here in mobilization, Army 4 percent; Navy 17; Air Force 1; Marine Corps 19.

In the economic reserve there is likewise a great discrepancy: Army, 4; Navy Reserve, 3; Air Force, 15; Marine Corps, 22.

Mr. McGUIRE. I think those figures are ours that we developed for the purpose of correcting the thing you are talking about.

Representative CURRIS. Let me make this very clear. A great deal of the information that this committee has is the result of the fine work that you people have been doing, particularly in the past year or so. We certainly want to commend you for it.

Yes, we are throwing a lot of the figures back at you and I know you people evolved them just to point out the things we have been discussing.

Mr. McGUIRE. I was trying to give you the reason. I will not tell you today that we have completely solved this problem, but I think that we can say that within the foreseeable future, and I mean in the

fairly soon, quick future, that this one is really going to be nailed down tight.

The services recognize this.

This is the healthy aspect of what we are trying to do here.

I am particularly grateful, for the approach that this committee has taken and I think it should be commented on, that instead of making them a horror case story you have used them intelligently. When these people learn that when they get the facts out on the table so that you can examine them, that they are not going to get murdered, you will get more facts out of them.

We have been preaching this and I am glad to be backed up on this promise.

Representative CURRIS. In our technique, the committee technique, it is bound to bring this out as if it was a horror type thing. Naturally, you illustrate a point by what turns out to be an extreme example.

Mr. McGUIRE. Fortunately, in business, I did not have a committee investigating our inventory.

Representative CURRIS. That is the difference. Maybe we ought to end on that note.

In the private enterprise system, if we keep the marketplace free, competition performs that function because the company that does not use good techniques goes broke.

Mr. McGUIRE. That is correct.

Representative CURRIS. Unfortunately, in this process with all the good will in the world and I think that is true of most of our military personnel, capable people, dedicated people, but they are in a system where there are not these automatic checks. Somehow or other we have to dig into them to find out how we can supply a check that will be second best, it will always be second best, in my opinion, to the marketplace system. Any time we can put it back into the marketplace we should save if we keep that marketplace competitive, rather than putting a uniform on it or have the Federal Government do it through the budget process. Let us put it this way, with all of the criticisms that are coming out, we have a system, a military system—military supply system that I am satisfied is head and shoulders above any of our enemies.

All we are trying to do is to make it that much better and continue to perfect it.

I want to thank you, gentlemen.

Mr. McGUIRE. Thank you very much.

Representative CURRIS. The committee will stand adjourned until tomorrow at 10 o'clock.

(Whereupon, at 5:20 p.m., the committee recessed to reconvene at 10 a.m., Saturday, January 30, 1960.)

IMPACT OF DEFENSE PROCUREMENT

SATURDAY, JANUARY 30, 1960

U.S. SENATE,
SUBCOMMITTEE ON DEFENSE PROCUREMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas (chairman), and Sparkman, Representative Curtis.

The CHAIRMAN. The committee will please come to order.

STATEMENT OF PERRY M. SHOEMAKER, PRESIDENT, LACKAWANNA RAILROAD, REPRESENTING THE COMMITTEE OF HOOVER COMMISSION TASK FORCE MEMBERS; ACCOMPANIED BY GEN. ROBERT E. WOOD, CHAIRMAN, HOOVER COMMISSION TASK FORCE ON USE AND DISPOSAL OF SURPLUS PROPERTY; AND FRANK UPMAN, JR., EXECUTIVE SECRETARY OF THE COMMITTEE OF HOOVER COMMISSION TASK FORCE MEMBERS

The CHAIRMAN. We are very happy to have with us today Mr. Perry M. Shoemaker, president of the Lackawanna Railroad, and Gen. Robert E. Wood, longtime president and executive officer, but now retired chairman of the board of Sears, Roebuck & Co.

These gentlemen were chairmen of committees and subcommittees of the Hoover Commission, dealing with the organization of the Defense Department and specializing in the field of supply.

I understand Mr. Shoemaker is going to speak first.

Mr. Shoemaker, I remember your excellent testimony before the Appropriations Committee in 1957 as a representative of the U.S. Chamber of Commerce. Your testimony was at that time forthright, courageous, and to the point.

I hoped that in that year we could strengthen the O'Mahoney amendment.

We were both in agreement on that point, but we were unsuccessful.

I think you may proceed in your testimony as you see fit.

Perhaps you can paraphrase it so that it will give us more time for questions. I particularly want you to point out how far we have actually progressed in this matter and what you think we should do from here on.

We had a very glowing picture yesterday afternoon from the Assistant Secretary in charge of logistics and supply and the general im-

pression which I think he gave was that progress was satisfactory, that such abuse as existed had been largely cleaned up and no fundamental change needed to be made.

I would like to get your judgment, but proceed in your own way, as you wish.

Mr. SHOEMAKER. Thank you, Mr. Chairman.

I very much appreciate the privilege of being here. As you know, the Commission on Organization of the Executive Branch of the Government, commonly known as the second Hoover Commission, was a bipartisan Commission created by the Congress and reporting directly to it.

The primary purpose of the Commission was to recommend methods by which savings could be made in the expenditures of the agencies of the executive branch without injury to the security or welfare of the country.

The Commission's reports, the result of studies by more than 350 professional men and executives, were more than reports of detail of Government operation. They embody both philosophy and fundamental principles of good government.

Following the official termination of the second Hoover commission on June 30, 1955, there was established a small organization of Hoover Commission task force chairmen and members for the purpose of using the men who actually worked on the various reports in as helpful a way as might be desired to interpret the background of the reports to the Congress and the various departments and agencies involved. Mr. Charles R. Hook, now honorary chairman of the Armeco Steel Corp., is Chairman. It is in my capacity as vice chairman, and because I was a member of the group which made the report on "Business Organization of the Department of Defense," and was Chairman of the Commission's Transportation Committee, that I appear before you.

It is my privilege to inform you that this statement has been reviewed by, and has the concurrence of, the Honorable Herbert Hoover, and Mr. Charles R. Hook.

Based on your chairman's letter of October 2, 1959, to the committee of Hoover Commission task force members, it is my understanding that the present hearings are for the purpose of assisting the Joint Economic Committee in its study and appraisal of the principal supply systems and functions of the Government, the management of these systems and its effect or impact on the national economy.

Our testimony shall be limited to the Department of Defense as it was here that the Hoover Commission made a special study of the supply systems, their organizational structure and the management of these systems.

As background, I shall briefly review the Commission's reasoning and approach to this area and the scope of the resulting report.

BACKGROUND FOR SPECIAL COMMISSION STUDY

As the various task forces of the Commission studied the many aspects of the functional fields of government, it became obvious that almost all of the investigations reached deeply into the Department of Defense. Mr. Hoover and the other members of the Commission

felt that the business organization of this great Department should not be reported on in piecemeal, but that the results of the studies of that Department by the various task forces should be coordinated. Furthermore, it appeared that there were various activities of the Department of Defense which were an essential part of any proper study of its business organization and which would not, and did not, fall within the area of study of any of the task forces.

SIZE OF DEFENSE SUPPLY ACTIVITIES

Here, after all, in the Department of Defense was the largest organization known to man. At the time of the Commission's studies, its expenditures consumed one-seventh of the national income. The Department employed 4,300,000 people, which was twice the combined manpower of the 10 largest corporations of the Nation. Its assets, real and personal, approximated \$140 billion, which equaled the value of all privately owned land in the United States. Its activities included counterparts of almost every commercial and industrial enterprise found in the civilian economy and were spread throughout the then 48 States, in 16,000 cities, even extending into 52 foreign countries.

COMMITTEE ON BUSINESS ORGANIZATION OF THE DEPARTMENT OF DEFENSE

It was, therefore, decided to set up a Committee on Business Organization of the Department of Defense, on which, in addition to several new members, there would be the chairmen or members of other task forces whose functional studies dealt with the Department of Defense. The membership of this overall Committee on Business Organization was as follows--and you will note that its Chairman, Mr. Charles R. Hook, and many of its 23 members, served during World War II in various responsible capacities in connection with certain phases of the business organization of the defense services.

Charles R. Hook, Chairman: Chairman, Arco Steel Corp.; during World War II served as chairman of the steel mission which visited England at the request of the Combined Production and Resource Board of the United Kingdom and the United States, in addition to serving in the Department of Defense and other Government activities; Chairman, Advisory Commission on Service Pay for the Armed Forces.

Reuben B. Robertson, Jr., Vice Chairman: President, Champion Paper & Fibre Co.; member, Subcommittee on Special Personnel Problems in the Department of Defense.

Joseph P. Binns: Vice president, Hilton Hotels Corp.; colonel, Army Air Force in World War II; Chief of Supply and Service, ATC of the Army Air Force in Europe. Chairman, Subsistence Services Task Force.

George C. Brainard: Chairman of the executive committee, Addressograph-Multigraph Corp. Served with the Army Ordnance Department in both World Wars; later with Office of Production Management and War Production Board. Member, Subcommittee on Special Personnel Problems in the Department of Defense.

Howard Bruce: Chairman of the board, Worthington Corp. Director of Materiel, Army Service Forces, War Department, World War II.

John J. Corson: Management consultant with McKinsey & Co. Member, Advisory Board to the Provost Marshal General, U.S. Army, Vice chairman, Subcommittee on Special Personnel Problems in the Department of Defense.

Michael DeBakey: Chairman, Department of Surgery, Baylor University College of Medicine; colonel, Medical Corps, U.S. Army, World War II; member of Task Force on Federal Medical Services, both Hoover Commissions.

Frank M. Folsom: President, Radio Corp. of America; formerly vice president and director, Montgomery Ward & Co.; during World War II served as member of National Defense Council and as Special Assistant to the Under Secretary of the Navy; member, Procurement Task Force.

Leroy D. Greene: Formerly with Bethlehem Steel Co.; member of Somervell mission to Europe on disposition of war scrap; also member of ECA missions in 1948 and 1949 looking into disposition of German scrap. Consultant, Office of Defense Mobilization; member, Task Force on Use and Disposal of Surplus Property; member, Depot Utilization Subcommittee.

Joseph B. Hall: President, the Kroger Co.; former Chairman, Commercial Activities Advisory Committee on Fiscal Organization and Procedures, Department of Defense; Chairman, Subcommittee on Business Enterprises in the Department of Defense.

Clifford E. Hicks: President, New York Dock Co., and New York Dock Railway; former member, Munitions Board Storage and Handling Industry Advisory Committee; Chairman, Subcommittee on Depot Utilization.

Mervin J. Kelly: President, Bell Telephone Laboratories; served on various governmental committees; member, Procurement Task Force; Chairman, Subcommittee on Research Activities in the Department of Defense.

Arthur F. King: President, King Publications.

John R. Lotz: Former chairman of board, Stone & Webster Engineering Corp.; Industrial Advisory Committee for Revision of Reparations and Dismantling Plants in Germany; Chairman, Task Force on Real Property Management.

George Houk Mead: Chairman of the board, Mead Corp.; served on various Government boards and commissions during World War II; Commissioner, first Hoover Commission; member, Procurement Task Force.

Frank H. Neely: Chairman of the board of Rich's in Atlanta; Chairman, Federal Reserve Bank of Atlanta; member, Procurement Task Force.

Willard S. Paul: Lieutenant general, U.S. Army (retired); served in World War I; later Adjutant General's Department; World War II, commander, 26th Infantry Division; Deputy chief of staff, European theater; Assistant Chief of Staff, Director, Personnel, General Staff; assistant to the Director, Office of Defense Mobilization and consultant to the Assistant Secretary of Defense for Manpower and Personnel; member, Personnel and Civil Service Task Force; mem-

ber, Subcommittee on Special Personnel Problems in the Department of Defense.

Thomas R. Reid: Director of civic affairs, Ford Motor Co.; former Chairman, Surplus Manpower Committee, Office of Defense Mobilization; consultant, ODM; Chairman, Subcommittee on Special Personnel Problems in the Department of Defense.

Franz Schneider: Executive vice president of Newmont Mining Corp.; served in Army during World War I; was Deputy Administrator of War Shipping Administration during World War II; special adviser to the Director of the Office of War Mobilization; staff member, National Security Organization Task Force, first Hoover Commission; member, Procurement Task Force.

Perry M. Shoemaker: President, Delaware, Lackawanna & Western Railroad; member, Subsistence Services Task Force and the Depot Utilization Subcommittee; member, Subcommittee on Business Enterprises in the Department of Defense.

J. Harold Stewart: Partner, Stewart, Watts & Bollong; during World War II, Chairman, Committee on Cost Principles, Joint Contract Termination Board, and later Assistant Director, Office of Contract Settlement; Chairman, Budget and Accounting Task Force.

Robert W. Wolcott: Chairman, Lukens Steel Co.; member of Industrial Committee, Iron and Steel Division, War Production Board; Chairman, Procurement Task Force.

Robert E. Wood: Chairman of the board, Sears, Roebuck & Co.; director of Panama Railway and Chief Quartermaster General of the Army in construction of the Panama Canal; Acting Quartermaster General, U.S. Army, during World War I; consultant, World War II, to Chief of the Air Force, General Arnold, on questions of procurement and supply; member, Task Force on National Security Organization, first Hoover Commission; Chairman, Task Force on Use and Disposal of Surplus Property.

I might at this time introduce Mr. Frank Upman, Jr., who is sitting on my left. Mr. Upman after long experience in both State and Federal Government affairs was assistant to the Chairman and Liaison Director of the overall task force working upon the affairs of the Department of Defense in its business aspects.

Mr. Upman is now executive secretary of the Committee of Hoover Commission Task Force Members.

The "Business Organization" report, which was adopted by the Commission without change as its report, presented four major program for achieving improvement in the organizational structure and management of the support or businesslike activities of the Department of Defense. These were--

(1) *Improvement of organizational framework.*--In this manner civilian control would be made more effective, the support activities would be better organized and better opportunity for executive teamwork would be provided.

(2) *Integration of common supply and service activities.*--This would result in greater support effectiveness, efficiency, and economy.

(3) *Improvement of management personnel.*--This would increase tenure, motivation, and skill of both civilian and military

executives resulting in improvement of the total management of the support activities.

(4) *Improvement of financial management and control.*--Establishment of better financial control throughout all levels of the Department of Defense would enhance top management control and economy of operation.

I emphasize to you that it was an integrated report and one within which reorganization and the application of sound principles of business management were closely intertwined. It meticulously refrained from dealing with the strictly military combat operations of the services.

INTEGRATION OF COMMON SUPPLY AND SERVICE ACTIVITIES

The heart of the report was part II: "The integration of Common Supply and Service Activities." Over 60 percent of the total defense budget at the time of our study was being expended for these activities which include procurement, warehousing, distribution, cataloging, and other supply activities, surplus disposal, financial management, budgeting, disbursing, medical and hospital services, transportation—land, air and sea—training, liaison activities, and many others.

The CHAIRMAN. I think that percentage is approximately the same today.

Mr. SHOEMAKER. It is my understanding that it is, Mr. Chairman.

Since the passage of the National Security Act of 1947, there have been recurrent and positive expressions by congressional committees that there should be integration of the military supply systems designed to meet, without duplication, the needs of the military departments. In 1952, you, Senator Douglas, introduced a bill providing for integration of supply and service activities within and among the military departments under the direction of an Under Secretary of Defense for Supply Management. The debate on this proposal ended in a compromise known as the O'Mahoney amendment, which became permanent law and which required the Secretary of Defense to issue regulations aimed at fostering an "integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operations or functions."

I might add, as reflected in the opening comments of the Commission report on "Business Organization of the Department of Defense," that we who made that study were keenly aware that the structure of the military departments had not kept pace with the vastly increased importance of support activities. It was clear that the organization of the departments had given inadequate recognition to the impact of the new military support demands on—

The available natural resources.

The industrial resources of the Nation.

The national labor force.

The national economy, which particularly brings this subject within the purview of your committee, sir.

NEED FOR STRATEGIC ACTION

In 1954 and early 1955, several Hoover Commission study groups again posed the necessity of stronger action toward unification of supply and service functions:

The Commission, in its food and clothing report, concluded that a central agency should make all food and clothing purchases for the armed services upon their stated requirements; and that it should store and distribute this material to the armed services.

The Task Force on Federal Medical Services concluded that medical supplies should be procured centrally for the entire Federal Government, and that within the Department of Defense there should be established a single military system for integrated storage and distribution of medical supplies.

The Subcommittee on Depot Utilization advocated the elimination of the concept of ownership of storage facilities by individual military departments, so as to clear the way for ready transfer of such facilities within the Department of Defense.

The Subcommittee on Transportation recommended that the management of traffic and transportation in the Department of Defense be administered by a position at the Assistant Secretary level. Further, that the office should have no responsibility or duties other than those pertaining to traffic and transportation—with all necessary authority to direct the traffic management activities, passenger and freight, in all military services, including the coordination and consolidation of functions and facilities, to the extent that the office determines it to be necessary and practicable.

In the face of this accumulating evidence, the committee not only gave particular attention to the military supply system with its duplications both between the services and within the services, but also investigated services where there is a community of interest. It concluded that a definitive program must be outlined which would eliminate duplicate stocks, facilities, distribution, and overhead personnel. In order to devise such a plan, the committee considered extensive background history including various approaches such as coordinated purchasing, cross-servicing, and integrated supply systems (single-service management) to achieve coordination of common supply and service activities. After many weeks of consideration, the committee discarded all of them as being fragmentary or possessing inherent weaknesses and built-in limitations.

HIGHEST DEGREE OF INTEGRATION RECOMMENDED

As a result, the committee's recommendation was for the highest degree of integration, namely, that there should be "established a separate civilian-managed agency, reporting to the Secretary of Defense, to administer common supply and service activities." In addition to its other advantages, a common supply and service agency would provide a supply system more quickly expandible in wartime without need of drastic reorganization as was necessary in both World Wars, remove commercial-type operations from the military departments and thereby free professional military personnel of unnecessary administrative burdens.

"CRASH" INTEGRATION FOUND NECESSARY WORLD WARS I AND II

Studies of the Commission showed that during World War II varying degrees of coordination and considerable actual integration of common supply activities were, of necessity, adopted by the military services on a "crash" basis. In confirmation, the Secretary of the Army, Mr. Stevens, in his 1954 plan for reorganization, had this to say:

For both major wars fought in this century, the Army has had to change its organization structure radically in order to perform under wartime conditions.

Each time the primary weakness was in the logistics area * * *

Gen. Omar Bradley said, on May 5, 1958, in testimony before the House Armed Services Committee, concerning reorganization of the Department of Defense:

In any war of the future, action will have to be taken quickly. Commands must be organized in advance, and operational plans must be prepared. We must have the capability to start operations immediately.

SINGLE MANAGER PLANS

About the time of the Commission's report, the Department of Defense started experimenting with the so-called single-manager plans which accepted, with some modifications, the Commission's recommendations as they applied to selected commodity areas; but rejected the more embracing recommendation that a single agency be established to perform all supply and service functions common to the military services. The single-manager concept was a compromise solution which attempted to balance congressional demands and Hoover Commission recommendations for more integrated operations against the preference of the military departments for separate supply organizations and the prevailing military doctrine that each department must control its own supply channels for effective performance of military missions. The single-manager program was described succinctly by Congressman Hollifield before the House on June 29, 1959, when in connection with his explanation of the report of the House Government Operations Committee, he stated:

The single-manager program was designed specifically to meet the criticisms of Congress and the Hoover Commission with respect to duplication, overlapping, and waste in procurement, warehousing and stockage of supplies, and failure to use the resources of all three military departments to meet the separate needs of each department.

Supply single-manager assignments for subsistence, clothing and textiles, medical supplies, and petroleum, and service single-manager assignments for Air Transport Services, Sea Transportation Services, and traffic management, were established in 1956. The Department of Defense announced on November 10, 1959, that single managers for general and industrial supplies would be established January 1, 1960, and become fully operational as soon as possible.

SHORTCOMINGS OF SINGLE MANAGER PLANS

We feel, as did the Hollifield subcommittee of the House Government Operations Committee last year, that the single-manager plans have been too slow in formulation and too limited in application. As

a case in point, while a single managership has been established in medical supplies, it does not go on across the board into medical services so we still have duplication of hospitals as well as duplication and even competition in the provision of medical services.

As against the integration which the Commission endorsed, the single managership in traffic management is limited to the United States; the single managership in Air Transport Services has no relation to traffic management of the Sea Transportation Service. The Sea Transportation Service in turn has no coordinating relationship with either the Air Transport Service or traffic management. Overall, there is no policy coordination with respect to transportation at all. We have no transportation managership in a commercial sense, but only a fragmentation of it.

As more single managerships are established, the policy coordination of these separate organizations becomes more and more of a problem. I would be less than frank if I did not say to you that, in our opinion, the single-manager concept, while an improvement over past systems, and perhaps an essential first step, is not a satisfactory substitute for the Defense Supply and Service Administration as envisaged by the Commission. Single managerships need supervision and operating and policy guidelines as differentiated from straitjackets and limitations. Decentralization, without a common denominator of policy and supervisory control with reasonable uniformity of procedure mechanics, leads to inadequate coordination and effectiveness which is a luxury we can no longer afford.

I would not intentionally leave with the committee an implication that the Department of Defense has been sitting on its hands and that no progress toward improving the logistics system has been made. There has been improvement in the areas of better screening of requirements, better utilization of depots, standardization of items, inventory control, and perhaps in surplus disposal. But it has been frustratingly slow and continues to be hampered by unwillingness to really subordinate the individual services with their multitudinous supply systems to a real integration characterized by a continuity of trained civilian management using to the maximum a limited number of facilities. In the area of services, it continues to be our belief that transportation control, for example, will not really be achieved until authority and responsibility and, I might add, accountability, is concentrated at the Department of Defense level.

It seems significant that the Holifield report of July 15, 1959, to which I have referred and which is the most thorough evaluation of military supply management since the Commission's study and report, while giving credit to the limited amount of progress made under the single manager concept also pointed out:

(a) The subcommittee believes the Department of Defense has put more emphasis on study than on decision and action; and

(b) The Secretary of Defense should continue not only to evaluate existing and to establish new single-manager plans, but to "consider an 'ultimate' plan of organization which would give a broader and more stable form of organization to military supply operations and management."

M'CORMACK-CURTIS AMENDMENT

Legislation was introduced in both the 84th and 85th Congresses to provide for the establishment of a "separate, civilian-managed agency to administer common supply and service activities" as recommended by the Hoover Commission. No action was taken on this legislation in either session.

However, in August 1958, there was enacted into law the Department of Defense Reorganization Act of 1958, among other things carrying a provision known as the McCormack-Curtis amendment which, in unequivocal language, empowered the Secretary of Defense to "provide for the carrying out of any supply of service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate." Thus, the problem if it really obtained with respect to the separate administration of the services, was answered and the Secretary of Defense was given authority which would permit him to fully integrate common supply and service activities as envisaged by the Hoover Commission. However, it seems fair to say that there has been strong reluctance to recognize or even acknowledge the potentialities of such full integration.

I was impressed with the discussion of this subject by a member of this committee, Congressman Curtis of Missouri, on June 11, 1958, during the debate on the Defense Reorganization Act of 1958. He said, in part:

Unfortunately neither the President's bill, H.R. 11958, nor the Vinson bill, H.R. 12541, makes specific reference to supply and service activities though these functions constitute approximately two-thirds of the military budget. It is in this area of overlapping and duplication where billions of dollars can be saved, each year, at the same time producing a more alert and hard-hitting military organization by making it more efficient.

As I see it, three basic things must be done in this area:

First, we must have unification of the three services in procurement, supply, and distribution. This means levels of buying, warehousing, distributing, and so forth.

Second, utilization rather than duplication of the civilian supply and distribution system.

Third, a personnel system that is trained to think in these terms and one that will improve on the system as it goes along.

Mr. Chairman, I previously stated that it is necessary to have unification in other areas. If the theory behind common-use items is accurate, as far as the unification of procurement, supply, and distribution is concerned, it is certainly true of common items that are military in aspect among the three services. That is the importance of the Arends amendment and I hope the gentleman from Massachusetts, Mr. McCormack, and others on his side will recognize that that was the intent of the Bonner subcommittee because, although we were dealing with common-use items we stated very positively that if this proved to be true in that area, it certainly should be carried over into military areas.

Mr. Chairman, I want to point out one other thing before I conclude my remarks. There has been some question, particularly on the part of the Committee on Armed Services, challenging the statements of the Hoover Commission to the effect that billions of dollars could be saved in this area of unification of procurement, supply and distribution. It is a difficult thing to estimate how much can be saved. But I can tell you one way in which you can verify that we are talking in terms of billions, and that is in this fashion. We start at the garbage pail, as it were, just as the supply officer, in looking to see whether or not the mess has been properly administered, takes a look at the garbage pail to see what is in it. So we look to the garbage pail, as it

were, of military items that are in surplus and we find that we are talking in terms of billions of dollars. This year there will be \$6 billion of excess military supplies. That is an annual figure. It has not been running as high as \$6 billion each year, but it has been running in the billions. I think last year it was somewhat over \$5 billion. This year it is \$6 billion. This is the total value of the Department of Defense excess personal property which will be up for sale this year. We have been realizing only 7 cents on the dollar from these sales.

This index I have in front of me contains some 200 pages of various items that go into this garbage pail. This index is the Department of Defense excess personal property book for the month of May 1958. There are some 35,000 individual items running in cost from millions of dollars in individual items down to 1 cent apiece. The last item in the book is a metal-backed paper tag. We overbought 46 million of them at 1 cent apiece. This amounts to \$46,000 for that one item alone. A review of this index disclosed thousands of similar examples. How do these surpluses accumulate? Who overbuys and why? The answer is triplicate buying, unnecessary buying, untrained personnel, a hundred reasons of inefficiency. Our military procurement system is outmoded and inefficient. If we achieve unification and efficiency we will save billions of dollars and will produce a more alert and hard-hitting military organization. That is why it is necessary for this legislation to pass.

VALIDITY OF PRINCIPLE OF UNIFIED SUPPLY SYSTEM

In considering today the Hoover Commission report which was made in June 1955, certain perspective is necessary. There have been great changes in the international situation, in the development of weaponry, in the utilization of our forces, both offensively and defensively, and finally in the climate within our great military organization itself. I would emphasize to you that the principles behind the Commission's report are far more important than the details of their execution. The various specific recommendations proposed by the Commission may, in fact, not be as valid today as they were in 1955, but in broad outline the principle of a unified supply system with all of its attendant economies in personnel, standardization, procurement, transportation, and depot systems, among other things, seems even more important in the light of current developments than it was at the time of the Commission's study.

In closing may I commend the committee for its recognition of the importance of Government supply programs and policies to our economic welfare. An exceedingly useful public service will have been performed if the result is a renewed determination by the Congress, and by the departments and agencies concerned, to achieve a procurement and distribution system with real screening of requirements, with responsible inventory control, with simplified and clarified procurement practices, without duplication in personnel or facilities, and with solid emphasis upon the control of cost by effective organization.

Mr. Chairman, with your permission I would like to make two or three comments. I had the privilege of sitting through the hearings yesterday.

In looking back upon our study, which is now almost 5 years ago, I find myself in the same position that many members of the committee are in in their review of this thing for a much longer period of years.

We still have going on some of the same fundamental problems and they are producing in general the same fundamental unsatisfactory

results. We have great discrepancy in practice as between the individual military departments.

I noted from the testimony that we still have this extensive misuse of local purchase by the Air Force which indeed is a device which takes an end run around central control, if you will.

I note that we still do not have a uniform ration law established. Until that is done we do not get into the use of standardized menus and the economies of subsistence, procurement, storage, and distribution.

I would be the first to concede that improvements have been made in our requirements planning and, some very helpful and encouraging action has been taken in the Defense Department under Secretary McGuire in this matter of screening requirements.

But anyone who looks at the excess and surplus, as your committee has been doing, must come to the conclusion that we have not yet scratched the surface on controlling the items that are going into our inventories systems.

The one reaction that I have from the testimony is that we have perhaps put too much emphasis on coordinated purchasing, or single service procurement, which, after all, is but one step in the supply system.

I note that the ropewalk at Boston is still in operation as an indication of the continued difficulty in getting the military out of active operation of those business-type activities of which the Commission found so many.

I would not attempt to tell the committee that all the business-type activities of the Department of Defense are wrong or improper. Of course they are not, but certainly there is economic reality in the importance of this when we realize that as of the time of the Commission's study the capital investment in these commercial-type activities by the Department of Defense was some \$15 billion; that there were some 600,000 persons employed in these commercial activities, and that was only after our having identified some 2,000 in some 48 different categories.

Now, immediately after the Commission's report, in 1955, and 1956, and 1957, there was quite a bit of activity and many of the smaller operations were shut down.

In the past 2 years there has been a very disappointing amount of activity in this field. I think it is fair to the Department of Defense to say that their attempts to shut down commercial-type activities have not completely been with the cooperation of the Congress in various specific items, but that is a problem of our form of government and it is a problem which can be resolved.

In the meantime, as long as we continue these activities by Government, they will not be replaced by taxpaying business operations.

One of the very shocking things in the study of the Department of Defense to us, as brought out by the personnel committee, which was headed by Tom Reid of the Ford Motor Co., one of the better qualified personnel men in business in this country, was the realization that we had at that time some 16,000 duplicate staff managerial positions in the support activities in the Department of Defense as between civilian and military.

There were some \$110 million annually involved in that duplication at the time of our study.

I am not aware that substantial progress has been made in correcting that. Certainly the committee is in a position to find that out.

I do not want to be considered as throwing brickbats here because I just do not know in some of these fields how much progress has been made since our study.

But I would point out that we still have this turnover of supply management people on the part of the military, as a part of the rotation system, so that we do not get a continuity of business-type experience and yet in many cases it is the military man who is in a top position. We need a continuity of civilian management in the details of these various supply operations.

Now that is not at all to imply that these military men involved are not sincere, capable, and dedicated people. But a supply system is essentially a civilian-type function.

It is not what military people were trained for. So when through rotation they get into this sort of thing, they have to go through a period of education and training, as would be true of any of us.

In considering this matter of integration that has been referred to somewhat briefly before the committee, I wonder if we have an appreciation of what it means to have the duplication in supply and distribution systems that are part of this picture.

Not only are there the general breakdowns and duplication between the Army, Navy, Marine Corps, and the Air Force, but we have the separate supply systems within the Army for the various corps, within the Navy for the bureaus, all of which gets into further areas of duplication, areas which consume manpower, and areas which because of their segregation involved great problems of common management.

Considerable discussion yesterday, I think, was given to the use of the General Services Administration for common-use items. I think I would express just a word of caution on that.

At the time of the Commission's study, the General Services Administration, which was a creature of the first Hoover Commission, as you all know, in some of its functions was not performing in a reasonable, satisfactory manner, for the responsibilities that it had.

IMPROVEMENTS IN GENERAL SERVICES ADMINISTRATION

It is entirely fair to say that improvements have been made in the handling of the General Services Administration supply system since the time of the Commission's study.

I think the less said about traffic management in General Services Administration the better; not in the sense that GSA is doing a poor job today, but in the sense that we never have achieved in the handling of traffic management for the civilian agencies concentration of that activity in GSA. It continues to be spread around in most of the civilian departments, as was true at the time of the first Hoover Commission study and as was true at the time of our recheck on it several years ago.

If we are going to use GSA for a considerable part of these common use items, I think we need to keep in mind that if economy is to come—economy in manpower, economy in inventory, economy in distribution—then it must be more than a mere procurement responsibility.

It must be a supply responsibility in that field and using GSA supply facilities as much as possible around the country.

Of course, General Services Administration today has no oversea responsibilities whatsoever.

In some of our inspection trips we had some illustrations of the problems of the military in really accepting GSA for more than a short period in supply management.

We went into a GSA warehouse on the Pacific coast in South San Francisco, and found that for the civilian agencies GSA was doing a pretty good job on office supplies. They had a backlog, as I recall it, of 126 typewriters to cover all Government installations on the Pacific coast.

Certainly not an excessive one by any standard.

The next day we went into the Marine Corps warehouse at Harrison Street in San Francisco and found over 4,000 typewriters in that one installation and a group of men engaged in taking them apart, oiling them, repairing them, and so on.

There is a great reluctance as we get down below the top echelon to accept the potentialities of General Services Administration on the one hand and to objectively look at its limitations on the other.

I point this out only to urge that the committee look at it with some caution--aware of the limits of what GSA can do and the fact that really big savings will not materialize until the full management of common supply and service activities are pulled together under one control within the DOD. Then and only then can the full potential of GSA be realized in procuring those commercial type items common to both the military and civilian agencies of the Government.

STOCK FUNDS SHOULD BE HARD AS A MANAGEMENT TOOL

I listened with great interest yesterday to some of the remarks and discussion of industrial funding and revolving funds. We made some review of that in our Commission studies.

Industrial funding, if I am not mistaken, started in the Navy as far back as 1893. It has become a traditional habit of control.

After all, what are we talking about in stock funds? We are talking about merely a management tool which can be a management limitation and which can be an operational limitation.

I think there are great benefits which have been achieved and can be achieved with the use of stock funds but they should be a tool and not a Bible.

Dependence upon them can be overdone and you can freeze into an operation an inflexibility, an uneconomic lack of control, and certainly it is much harder with respect to stock funds for the Congress to carry out the check and balance that it is able to do through the normal appropriations procedure.

I came across a few days ago a report of the Department of Defense appropriation hearings for 1960 before the House in which an illustration of this problem was made in volume 2, page 289, when General Arnold gave an illustration of the problem of where stock funds do not help.

He describes in his testimony how one of his own warehouses had a supply of laundry machinery, how their own laundry machinery

was worn out, but because they did not have money to use to go to the stock fund they could not take the equipment out of their own warehouse and use it.

A ridiculous situation, as any of us know, but it illustrates the realities of inflexibility that can come into the stock fund operation.

SURPLUS PROPERTY PROBLEMS

I think it might be appropriate at this time, if it is your pleasure, Mr. Chairman—I have studiously kept away from surplus disposal among other parts of the supply because, as you know, we have at the table with me a man who has forgotten more about supply management and surplus problems than almost anyone in the country and still has left more knowledge than the rest of us have.

General Wood was Chairman of the Commission's Task Force on Surplus Disposal. He was a member of the Committee on Business Organization of the Department of Defense and I would be very grateful to have you invite him to give you his views on this subject at this time.

The CHAIRMAN. We shall be very glad to do so.

General Wood is a distinguished citizen of Chicago. He has been a former Quartermaster General in the U.S. Army.

General, if you have any comments that you would like to make, we shall be very grateful to hear them. We appreciate your coming here.

General Wood. I have no prepared statement because I feel that the committee has been burdened with enough testimony and very good testimony.

I think the committee is performing a public service in attacking this problem.

What comments I make will be very brief.

The rote of surplus begins in the requirements—requirements prepared by the requirements branches of the various bureaus and departments; then they are passed over to procurement.

In many cases the requirements are drawn up by young untrained officers who have had no supply experience and it is a matter of rote. They do not have the proper record of issues, what we would call in commercial language, sales. It is as if the buyers of Sears, Roebuck kept on buying regardless of the amount of sales.

So it starts there.

Then you get to the depots of the various departments and in those depots you have what you call mobilization reserves, economic reserves, and contingency reserves, and certain goods are set aside in case of war or in case of contingencies and so on.

There is a tremendous waste there. It is all right in certain very technical things, let us say missiles and parts of which you keep a reserve, but there is no object in keeping a reserve of hardware where goods can be turned out in a very short time in time of war.

Another thing is that the officers are not trained in supply. There is one rule of thumb that applies both in military and commercial service—about 20 percent of the items furnish 80 percent of the sales or issue. Say there are 100,000 items in the catalog. Twenty thousand items will produce 80 percent of the sales. But just as much time

and effort is put on that 80 percent that is relatively unimportant as on the 20 percent that is important.

The procurement officer will buy as liberally of the item which is called for maybe once every 6 months as the items which are called on every day. To use an example, it is just as if Sears bought just as many pianos as they did overalls. They sell a couple of hundred pianos a year and they sell several million overalls. That is to illustrate the errors that the defense makes.

I have spent 20 years in the Government service as an officer of the Army in the Panama Canal and I have been 40 years in commercial business. In many cases the problems and human nature are the same in either one, Government or big business.

You have just as much difficulty in prying anything away from a department in big business as you have from a department of the Government.

But to show the results, the total inventory on your general supply chart is shown for the Defense Department as \$349 million in the tabulation. Anyhow, it shows about 3 years supply; \$349 million and \$80 million of excess, but the proportion is so big for the inventory and for the amount of supply.

But the committee can recommend a line system. I think progress is being made. Mr. Shoemaker recommends you have to come more nearly to a complete integration. Your greatest difficulty is the personnel.

For the average Army or naval officer, the supply department does not appeal to him. He does not get the experience; he does not get the outlook.

Furthermore, while an officer may be severely reprimanded if a shortage develops anywhere, he is never reprimanded for a surplus. So he always protects himself by buying all he can, getting everything in the warehouse.

That is the part that is the most difficult to deal with. This committee can recommend, and I hope enforce, a system that is good, but unless the personnel get experience and are properly trained you cannot get very good results. Now, there is not as much waste, but it is still colossal. You probably know that.

The CHAIRMAN. General Wood, to what degree do the tables of equipment for the various units when summated, or if summated, would not those largely prevent overbuying?

General Wood. Will you repeat that, please?

The CHAIRMAN. With respect to the tables of equipment that each military unit will have, I had always thought that the summation of those tables of equipment would give the general requirements for the service and this would hold down excess buying.

General Wood. Yes, but there comes a rub.

The table of equipment is often very faulty. I saw that particularly in the Air Corps. I was advisor to General Arnold in supply in the Air Corps in the last war. Those tables of spare parts, the orders were issued when you put in a new airplane, and there again they were so unbalanced, so much we will say on 75 percent of the various items in the table of equipment that the requirements would be excessive.

They would be ordered, purchased, deposited in the warehouse, and there rust for several years. Some of them are there now.

The CHAIRMAN. Are you recommending then that the tables of equipment be revised?

General Wood. I think they should be revised and I think that the Chief of Bureau or whoever has the responsibility should go over them far more carefully than they are done today.

I had a very amusing incident of that, Senator, in World War I, when I was Quartermaster General of the Army. I was brought back from France and the first requisition passed over my desk was a requisition for 500,000 horse covers to put on the animals in cold weather. I asked who made out the requisition. They finally brought out some young lieutenant. I asked how did you get this quantity. He said the tables of organization had 18,000 horses. Eighteen thousand horse covers multiplied by, say, 25 divisions is half a million.

I said as a matter of fact they actually don't average 5,000 animals. Half of the animals are in the southern camps where they do not need any horse covers. So your requisition is no good.

That is just the example of what went on in this Second War, what goes on today.

Congress may proscribe a system, but if the personnel do not have any experience you are bound to get unsatisfactory results.

DANGER OF CONCENTRATION

The CHAIRMAN. Now that raises two further questions which concern the proposal for a unified service of supply to take care of all four military services under civilian direction. When I have broached this matter to men in the Defense Department, they have made two replies.

The first is that this work is on a huge scale now and to concentrate it still further would expose the service of supply to the disease of gigantism, handling over \$20 billion of purchases each year; the task would be so huge that it is better to subdivide it.

The second comment is that if you put it under civilian direction that they will not know, the civilians will not know, the actual field requirements.

This is true, of course, in the field of weapons; but it is also true in even such items as clothing and food.

Now I would like to hear you two gentlemen comment on those items, and the replies, which have not convinced me, but which I must say should be taken into consideration.

General Wood. I think, Senator, you have summed it up pretty well.

Now, there is a great danger there. In fact, what we call Government redtape is largely size and centralization. The same thing applies to a big corporation. I ran one for 25 years and I found the only way you could run it properly is to decentralize and give full authority.

Now those things do come up in the Army, in the Navy, in the Marine Corps. I think, however, there is some means in between where you can get a unification of policy and control, but a decentralization of operation. But there is a lot of force in the argument, Senator.

The CHAIRMAN. Mr. Shoemaker, do you have any comments?

Mr. SHOEMAKER. Yes, I would like to comment upon it, Mr. Chairman.

I do not think any of us can emphasize too much the realism in General Wood's remarks about the importance of personnel, regardless of what kind of system of organization we have. The Commission recognized that.

As a matter of fact, one of the basic recommendations was that the Secretary of Defense should establish a personnel system for support activities which provides comparable standards for selection, training, promotion, and compensation of both civilian and military managers and technical personnel.

Further, that the Congress should enact the necessary legislative changes in order to carry out this objective.

CENTRALIZED CONTROL AND DECENTRALIZED OPERATIONS

Now in the course of our study we had thrown up many, many times the same arguments which you have so well expressed, this fear of size. We do not have to be fearful of size if we break down the organization and decentralize it. Certainly that is the only practicable way in which a logistics support organization of this character should be handled.

The Commission carefully stayed away from going over the line into military hardware with respect to this thing. Our feeling was, let us start on common-use items which are essentially commercial in nature, as to which there is no mystery in handling with respect to procurement, storage, or anything else, and let us get into some of the services that have commonality, where we know there is duplication. Let us start there and see if we cannot put this together in a reasonable way.

Under an adequate organization it is our firm belief, Mr. Chairman, that the integrated supply system which was envisioned by the Commission will simplify and clarify rather than confuse the very aspects to which the military calls attention.

Now so long as you have these several functions in each of the services and in each of the corps and bureaus you have decentralization, to be sure, but you have much worse than that. You have no management control. As long as we have that we will get into duplications of inventories, contradictions of procurement, and that sort of thing.

NEED FOR OVERALL POLICY MANAGEMENT

It is not our belief that size as such should scare us away. If so, we ought to break the Department of Defense itself down into segments and break the Army, Navy, and Air Force down into segments. You don't run any enterprise today, whether it is defense or whether it is business, without having overall policy management. That is what we are talking about here in this organization.

As we pointed out in the report in giving some of the background of our thinking on this subject, Mr. Chairman, we stated that the factors, the more important factors which led us to this final conclusion with respect to one integrated supply system under civilian

management was the problem of inertia or strong resistances on the part of military departments in collaborating on such matters.

Incidentally, I would like to pay tribute right there to Secretary McGuire. I think he has achieved more cooperation and collaboration between the services in these fields than has been obtained at any previous time.

But in the final analysis, if you sit back and look at this thing, we are running a supply system to a considerable degree by committee, depending upon salesmanship between people rather than authoritative direction.

We found that the difficulty of assuring equitable treatment under tight mobilization conditions when one service tries to meet its own needs and furnish a degree of service desired by others was a real problem run into by the military time and time again, so long as one service was responsible for a particular-----

BASIC WEAKNESS OF SINGLE-MANAGER PLANS

The CHAIRMAN. Do you regard this as one of the crucial weaknesses of the so-called single manager system?

Mr. SHOEMAKER. I do, indeed.

Don't interpret me as knocking the single managership as bad. To the contrary, Mr. Chairman, I think it is the most constructive development as such that we have had. I think it is better than any of these previous devices. But as we, perhaps wrongly, interpret the fact that there were four single managerships established in 1956, and we only now are getting two more established, I think the Department of Defense itself realizes that the more of these you establish, the greater the problem of coordination and uniformity that develops with respect to these.

Just picture what a supply manager at a depot has in front of him when he has instructions from the Army with respect to the storing and bookkeeping and control of food and subsistence, and another set of instructions with respect to clothing, and another set from the Navy with respect to medical supplies, all of which may be in the same warehouse.

Representative CURTIS. I was very pleased to hear Secretary McGuire say that they were trying to gear more items into the single manager plans than they now have rather than necessarily creating more single managers.

Would that be in accord with the point that you are suggesting?

In other words, what you fear and at least what I fear is suppose we develop 14 or 15 single managers, you end up with a proliferation in itself.

Here we have on the chart, which does not make any sense to me, two recent ones, (8) handtools, administration and housekeeping items, and (8) the single manager is the Secretary of the Army and (9) hardware, paint and metal bars and the single manager is the Secretary of the Navy.

Now why should those two items be in separate single managers? Why should not (8) and (9) be one single manager?

That is a question I wish you would comment on.

Mr. SHOEMAKER. That is very true. I think the Department of Defense itself realizes this is a hazard.

I heard your remarks yesterday with respect to parceling out some of this as between the services. I think that is a realistic statement, that it has been done. But as you do that, how do you get direction and control and coordination and management through an overall, somewhat loose committee setup.

I don't think it will ever be safely achieved. Furthermore, if this is the rate we are going at, it will be 20 years before we will have achieved the improvement which has been envisioned by you men in Congress who have studied this for the last 10 years.

The CHAIRMAN. Senator Sparkman, do you have any questions?

Senator SPARKMAN. No, Mr. Chairman.

Mr. Chairman, I should like to say that I have thoroughly enjoyed this presentation. I think it is one of the best that we have had and it points out an area where much more can be done.

Mr. SHOEMAKER. May I comment on that, Mr. Chairman?

I appreciate your putting it that way, Mr. Sparkman. If there is anything I am convinced of, it is that progress in this kind of field is only going to be achieved by a continuity of followup.

I certainly hope that this committee will assume that as a continuing obligation. Now that does not mean that you are distrustful of people in the Pentagon. But, after all, you have a turnover of people over there which is most important and which, so far as the civilian secretaryships are concerned, has set back progress because each man has to get acclimated and then find his way around and sometimes things get done in fine fashion and sometimes do not.

There is no assurance that we will have a continuation of the progress which Secretary McGuire talked about yesterday under another administrator until that man has been qualified and educated to the realism of these problems.

I think there is not a question of Congress entering into the details of management as such, but I think it is most important and I think it is true of many phases of our Government. The economic and balance aspect of the Congress policing and urging and having a continuity and understanding of this subject is most important. I hope your committee will continue this thing. I think it is most valuable.

PRESENT LEGISLATION IS SUFFICIENT

Senator SPARKMAN. I do understand from your statement, Mr. Shoemaker, that the legislation now on the statute books is sufficient.

Mr. SHOEMAKER. There is no question in my mind about that.

The CHAIRMAN. Just a minute.

If you figure a single unified service of supply, there is no legislation on the statutes to provide that.

Senator SPARKMAN. I understood the Reorganization Act of 1958 provided that.

The CHAIRMAN. It is discretionary on the Secretary of Defense.

Senator SPARKMAN. Yes.

What I mean is that the power is there if they want to exercise it.

Representative CURTIS. That is right. The power is there, but we could do more in direction.

HOOVER COMMISSION DID NOT RECOMMEND A FOURTH SERVICE OF SUPPLY

Mr. SHOEMAKER. If I may say so, Senator, I think there is this distinction. The Congress has not emphatically said, as of now, that the executive department is instructed or authorized to set up a complete service of supply as such, but it has, contrarywise, emphasized the need for and authorized there being an integration of common supply, which is the heart of the subject to which the Commission addressed itself.

We did not recommend a fourth service of supply—rather a separate agency, under civilian direction, to manage common service and supply activities.

The CHAIRMAN. Through the single managers?

Mr. SHOEMAKER. Through the common service of supply management being coordinated as we have recommended, sir.

The CHAIRMAN. I am now confused. I thought you had recommended a single service of supply for common-use items under civilian management.

Mr. SHOEMAKER. That is correct, sir.

In talking about a fourth service of supply, to me it carries another connotation, namely an additional layer, which is not in any sense what the Commission recommended. We recommended the pulling together of "common service and supply activities" in one spot.

Mr. WOOD. Isn't it true that they have the legislation making it optional by the Secretary of Defense? Is that correct?

The CHAIRMAN. The next question is, Should we make it mandatory?

PROGRESS FRUSTRATINGLY SLOW

Mr. SHOEMAKER. Mr. Chairman, that is a hard question for a layman to answer on the basis of the kind of study we completed in 1955.

Certainly the progress is frustratingly slow. Nevertheless, my experience has been that mandatory orders in a field as big as this also create some difficulties with changing people and so on.

The CHAIRMAN. No executives ever like to have an elective body give them a mandate; you know that.

Mr. SHOEMAKER. You may have to do it.

I personally believe that, contrary to the fears of Secretary McGuire yesterday, this can be done soundly without impairing our military stature one iota; to the contrary, strengthen it. Of course there will be problems in bringing it about.

ADVANTAGES OF A COMMON-USE SUPPLY AND SERVICE AGENCY

The CHAIRMAN. I wondered if you would outline in specific form the advantages which you think a centralized service on common-use items would have as compared to the parceling out of these separate commodity groups under the single management plans of one military service or another.

What are the specific advantages?

You talked in terms mostly of organizational charts. Organizational charts are important.

Mr. SHOEMAKER. Mr. Chairman, may I say to the committee that the answer to that question, first, will be given far more completely than I am going to attempt to give it to you in just a moment by reviewing the very thoughtful presentation on this encompassed in the Commission's report.

If I have seemed to give undue emphasis to organization as such, I hurriedly want to re-emphasize General Wood's remarks about people.

Now what do you accomplish with this sort of thing?

First, starting with the screening of requirements, you get into common-use items. What do you have today?

You have an initial screening of hammers, or whatever it may be, within each department, separate and apart, and each man, instinctively, with respect to the responsibilities of his department and the requirements of his department, will build in a little protection, a little insurance. Then that overall picture finally comes to a screening committee in the Department of Defense which Secretary McGuire set up, which is desperately trying to bring some overall coordination into this, but realistically with some 3 million items in the supply system and some 2 million that have some commonality—I think that is the figure, no committee set-up has got time to really do the job of checking on it.

So, one, setting requirements starts with a lesser amount than needed as maximum and no pyramiding of "insurance" requirements. You inventory control in one place and know what the issues have been in one place, and so on.

Secondly, you get into the procurement function itself. We have made progress as you know through the single managerships. I think we should look forward to similar progress being made in all of these common-use items and it is difficult for me to envision their being adequately covered in the single managership aspect.

The CHAIRMAN. Are you referring to the field of electronic and motor vehicles, because those are two conspicuous groups which are not covered by assignment to single managers?

NO NEED FOR UNILATERAL DEPOT SYSTEMS

Mr. SHOEMAKER. Yes, sir; it is particularly true of those. They are conspicuous because of their size.

And then we get into the storage side of it, and transportation. There is no question but that separate depots must go. With all of the improvement which the Department of Defense has made—and it has been tremendous, they have done a fine job in combining depots, in releasing surplus ones and in getting better utilization—we still have essentially separate depot systems.

Now I think they are approaching very constructively the breaking down of these fences between the services in their depot system. I think the GSA use of some of the depots has been a constructive thing. I hope it will be applied to the Veterans' Administration as well. We don't need this proliferation of depot systems.

Then over and above these duplications that continue to be built in as long as you have either single managerships or lack anything approaching an integration of common service and supply, I come back

to the statement that military men have made so many times, that we must have a supply system that does not have to be rebuilt on a crash basis when wartime comes. I don't think we will have time to do that again.

So if this is a better setup in time of war, if it has more responsiveness in it, then why not work toward it? After all, this is essentially what we recommended, and General Wood can talk more authoritatively than myself on it because I am not a military man, but this is essentially what was put into effect on a crash basis twice.

Representative CURTIS. There are some basic questions. I would like to try to get to one I think you have partly answered. It is a question of how Congress can best follow this.

We have three different groups of committees, both in the House and in the Senate, that do follow this problem in various ways. The Armed Services Committee of course of both the House and the Senate, and the Appropriations Committees of both the House and Senate, and then the Government Operations Committee, and the subcommittees, the Bonner committee, of which I was a member, and the Holifield committee.

INTEREST OF THE JOINT ECONOMIC COMMITTEE

The reason I felt that the Joint Economic Committee had to take this over, and I do feel this, our recent hearings on the very broad scope under Senator Douglas, into growth, employment and price stability, we ran into the military procurement and, I might say, the disposal of surplus property as a very important factor in our recent recessions and in the whole fiber of our economy.

There is no committee in Congress that I can think of that will view this problem of the military procurement, particularly in this day and age of cold war, where it is going to be as large, with its impact on the civilian economy. It is for that reason that I felt that this committee properly has looked into this matter and should look into it.

You have intimated that you were happy that this committee had held these hearings. You have also intimated that you would like to see this committee continue. I wonder if you would comment on that remark. I appreciate it has to do with internal organization of the Congress, but has not our failure been, as you pointed out, the fact that no one, no committee of Congress, has really followed this thing steadily through, this one thing, the impact of military procurement and supply on our general economy?

Mr. SHOEMAKER. Mr. Curtis, I am trying to choose my words carefully because I do not want to be in the position of carelessly seeming to criticize any other committee of the Congress.

I would interpret the responsibility of the Armed Services Committee as being primarily in the needs of defense as such, with a fence around it.

Representative CURTIS. That is my feeling, too.

Mr. SHOEMAKER. I would interpret the responsibility of the Appropriations Committee to create a recheck on the need for certain expenditures and, further, to the extent that it can, the knowledge that it is going to be spent wisely, frugally, and in conformance with the necessary checks and balances of good government.

There is no committee to my knowledge that has previously taken a look at this massive piece of our economy from the standpoint of its impact upon our industrial resources, or has had the feeling, if you will, or the responsibility of saying that there must be a sense of balance economically. We can spend ourselves to death or we can give an insufficient part of our resources to the military.

Your opportunity as a committee, it seems to me, is to bring into balance and perspective all of these aspects of this matter which, after all, is more than half of our national budget.

Representative CURTIS. I appreciate those remarks.

I might say that I have a conviction that our society can spend whatever is necessary for our defense, but I am also convinced that the billions involved and the impact on our economy as such, that we have to be very careful how we do it and to be sure we do it in an efficient manner. That we can do it, I am convinced, but can we do it efficiently with proper regard for the very values that we seek to protect in our society by building up this defense.

NEED FOR AN ECONOMICAL SUPPLY SYSTEM

Mr. SHOEMAKER. Why have Senator Douglas and yourself been interested in this supply system for 10 years? Not because you have any question in your mind that there must be a supply system for the military forces, but because you felt it should be the most economical system that satisfactorily does the job.

Representative CURTIS. That is right.

It has almost got to the point in my judgment where we have to be economical. Now we have reached the point where we have to, whether we like it or not, if we are going to handle our responsibilities in the world today.

Now, one other basic point I would like to bring out because I think it goes throughout the whole discussion. The hearings last night sort of ended on this point: Secretary McGuire of course comes from the business world. He is now in Government. General Wood has a similar background. In the business world we have an automatic way of checking the efficiency of an operation. If it gets too inefficient, you go broke.

Mr. SHOEMAKER. You succeed or fail.

PRIVATE ENTERPRISE HAS AN AUTOMATIC CHECK ON MISMANAGEMENT

Representative CURTIS. So, referring to your remarks of the fact that a supply officer is never censured for having a surplus but is often censured for having a shortage; in the private sector of our economy the censureship for having a surplus is a sharp one because if those errors are made too often, that business enterprise goes broke.

So through the marketplace we have in the private sector an automatic method of checking errors in overpurchasing as well as underpurchasing, too. But in the governmental sector we do not have an automatic method of checking this surplus, buying of surplus, other than through our budgetary system, which is not an automatic system but it is a rather arbitrary one. It depends on the abilities of human beings to go over a budget. It does not depend on these unknown economic forces at play—the marketplace.

It is for that reason I think in trying to cope with this military problem we have to realize that we have to build in some sort of control system to take the place of the automatic marketplace system. If that is so, then as much as we can we return to the marketplace. The extent to which we can use the marketplace device we gain.

I might add that I am interested in that, too, as a member of the Ways and Means Committee, because, as we return to the marketplace, we also put it in the tax base.

Would you care to comment on that observation?

I think it is fundamental, fundamental and true. If it is, I think it will clear up a lot of thinking as we go along in meeting the specific problems that arise, including personnel.

General Wood. I think, first, that we all feel that this country can carry the defense load that is necessary but in justice to the people, in justice to Congress, we ought to cut out all the waste still left. That is No. 1.

Now, returning to the marketplace, I think Mr. Shoemaker can comment on that better than I can.

Mr. SHOEMAKER. Mr. Curtis, this marketplace analogy of yours I think is excellent. It is one of the important reasons that the Commission had in analyzing the business-type activities of Government, largely in the Department of Defense. It is more than a question of being a taxpaying thing, it is a question of putting it in our society where the normal economical checks and balance in reality work to the best advantage. You are completely right that you don't have that ordinarily in Government.

That is not to say that we don't develop some fine and dedicated administrators in these fields who are as competent as there are any place in the business world. I know personally military men who are equally competent to any business people I have ever known. The tragedy to me is that such competence develops and then, through rotation or something else, they are shifted off the job and we start all over again.

I think there is nothing as important to a businessman at any level of business, including the president, as the knowledge that he is going to be checked. And how is he checked?

The president is checked by the board, his board of directors and stockholders, by the evidence usually of his balance sheet and his profit-and-loss statement.

As you go down the line, this ability to check people on effective results is one of the important tenets of our American business system. You are pointing out that in Government that is not built in and that perhaps this committee can supply some of the questioning, if you will, that will bring out that point of view. I think you are right.

I think some of these charts that Mr. Newman placed before the committee the day before yesterday, and which I persuaded him to hold over last evening and show to me because I could not be here the first day, I think this colored chart on the inventory of general supply, showing the difference in mobilization reserve policies as between the services, is a thought-provoking illustration of what we get into without having a coordinated management in fields of this kind.

Representative CURTIS. Now, if I may, I have three basic points I want to try to discuss. One I have never advanced publicly before, although I have discussed it privately. With General Wood here, I am just tempted to try it out. I think my premises are right, which are supplied to me by some military people.

MILITARY PROMOTIONS ENDANGERED WHEN ASSIGNED TO DOD

This much I know, that the people assigned to the Department of Defense, the military personnel, have their promotions still remain in the hands of the service from which they came, which means, and I am talking about human beings of good will and human beings of intelligence, but it does mean that when they are working in the Department of Defense they realize that, if they antagonize the service from which they come, this may have an effect on their promotion.

Now this is what I am not familiar with, but I was told by some Army people, General, it used to be that way in the Army. When you were assigned to the general Army from a corps, whether it was a Signal Corps or Engineers or Quartermaster, promotions used to still remain in the corps from which he came. There was a difficulty in trying to get a coordinated operation in the Army.

Then they changed the promotion system so that when a person was assigned to the general Army, regardless from what corps they might have come, that their promotion from then on was in the general Army.

I have often thought that if the people assigned to the Department of Defense knew that their promotions came from the Department of Defense, which is seeking to bring about these coordinations and to eliminate this proliferation, that we might move ahead a lot faster and we would eliminate a great deal of feet dragging.

Mr. Wood. That is true.

Representative CURTIS. Is my premise right?

Mr. Wood. Your premise is correct and it is responsible for a good deal of the difficulty in correcting the supply system.

I think you gentlemen on the committee known of troubles just as well as I do or anybody in business. You are always up against just what you mentioned, the service.

Now, they asked me to go on a committee to investigate the post exchange system in Europe. I went over there. I appointed a very good committee. There were two exchange systems in Europe, the Air Force and the Army, side by side, separate procurements, separate administration.

The committee unanimously recommended they be put together. That was the only thing; there was not a shadow of doubt about it. As a matter of fact, I think most of the officers connected with the exchanges favored it. But bearing out your point, the man who had to pass on it belonged to the Air Force. He believed it just as well as the committee did. General Gruenther preferred it. It did not go to General Gruenther, but because the man who passed on it was an officer in the Air Force and it meant possibly something against him if he concurred in the recommendation, it was just tabled. He never disapproved it. And there are still separate systems.

Representative CURTIS. Thank you, General.

I look for answers in a broad area like this on the premise that we are dealing with fine people, and I really believe we are.

Mr. WOOD. That is human nature.

Representative CURTIS. We are dealing with human nature. It is a question of trying to figure out a system whereby the better part of human nature is emphasized rather than the other way.

Mr. SHOEMAKER. Mr. Curtis, there is some discussion of that particular point on pages 65, 66, and 67 on the "Report on Business Organization of the Department of Defense."

Representative CURTIS. Do they make that point there?

Mr. SHOEMAKER. Exactly. It says this:

The promotion and compensation of support managers and technicians should be subject to standards which provide adequate and equitable rewards to both civilian and military career managers. For military personnel Congress should authorize separate promotion lists for those who specialize in support activities.

Representative CURTIS. Of course, what I am referring to is the Department of Defense more than anything else. That is within the system, on which I agree, but I am hitting at the top level.

The Department of Defense is the organization given the responsibility of bringing about the coordination. Now you can have real coordination or you can have this parceling out as I have described what is going on here.

MULTIPLE SINGLE MANAGERS RAISES BASIC PROBLEM

On one degree it is helpful, but in another degree, if we end up with 14 or 15 single managers, we are just going to end up with another problem on our hands. So I wondered about the ranking people, Army generals and admirals in the Navy, who are assigned by the Department of Defense and are rotated in and out there. I have talked to so many who recognize that this should be done and agree with it. Yet I have observed over a period of 10 years now that there is a resistance; in fact in some instances I regard it as actually disobedience of orders in getting around the orders.

So, in trying to figure out what produces that, I discovered this one thing; their promotions, even though they are assigned to the Department of Defense, the Navy still is the one that will pass on whether Captain So-and-so becomes an admiral or whether Rear Admiral So-and-so becomes a vice admiral, and the same in the Army.

To that extent they become special pleaders for their own department—Army, Navy, or Air Force—instead of being special pleaders, if you please, for the concept of the Department of Defense.

Mr. SHOEMAKER. It raises the question about the same problem with respect to military men going into business concerns. But the question you are raising goes far beyond this and it is one of the arguments I think used by the proponents for a single service. Whether it is valid or not is something else.

NOT IN FAVOR OF A SINGLE SERVICE

Representative CURTIS. Incidentally, I do not believe in a single service. The Senator has so expressed himself. I believe there is an advantage in having an Army, Navy, and Air Force in the tactical

and strategic end of it, but not in logistics. To me the unification should be in logistics and the separate services in strategy and tactics.

General WOOD. May I make one observation?

The CHAIRMAN. Yes, indeed.

SECRETARIES OF DEFENSE PRIMARILY AT FAULT

General WOOD. I think, as I have seen this in the last 6 years, it seems to me that the Secretaries of Defense, although they have been distinguished businessmen, have never realized the importance of this logistics problem and they could have done a lot more and made the path of this committee or Congress very much easier if they had devoted the proper attention to this matter.

Representative CURTIS. I thank the general because I certainly believe that.

The CHAIRMAN. I thank him double for that.

Representative CURTIS. I have talked to them and listened to them testify, and they are fine businessmen and they certainly help—

General WOOD. There is so much they did not do.

GETTING THE MILITARY OUT OF BUSINESS-TYPE ACTIVITIES

Representative CURTIS. Getting back now to still a very broad question, but, nonetheless, more specific in this problem of getting military out of business type activities, if that is what it is, or keeping them from going into other business. I fundamentally believe this is correct theory although there are certain things that the military of course must remain in. How can Congress have some checkpoint?

The one thing I observed that we could do would be if we could have separated in the military accounting capital goods items that appear in the budget. Now it is a budgetary problem to a degree because I have found that a lot of this equipment that the military has to buy so they can go into production—let us take production and take distribution later—to go into production comes under the heading of "Maintenance and operation." Their capital assets, a machine that cost \$100,000 let us say—I was using an example of grinding lenses because they were doing that out in St. Louis, or retreading tires and so forth, some of the very costly machinery required is not capitalized in the business sense.

Congress has no way of knowing when they are buying more of this kind of machines, at least I don't think they have; I have not been able to follow it.

I wonder what your comments on that would be.

No. 1, the question is, is that a good checkpoint to find out what they are getting into and, indeed, what they are?

I notice you mentioned you had made a survey and you found out that they had some, I forgot the amount of money you said was in capital assets—

Mr. SHOEMAKER. \$15 billion.

Representative CURTIS. \$15 billion.

Now, in getting that figure, was it easy to do or is the military accounting set up in a way that you can follow that?

And the second question, which is collateral, are the budgets prepared in the way that we can follow them?

All of this is based on the point of, is this a way we can follow this with some intelligence?

Mr. SHOEMAKER. Mr. Curtis, to intelligently answer your question I have to assume competence in a field I am not sufficiently exposed to to answer. We have the same problem in most business. We have the same problem in the railroad business, if you will, where it is a great temptation for capital expenditures to be called something else.

As a matter of fact, that is one of the reasons we got into the system of uniform accounts by the Interstate Commerce Commission, which do not permit that sort of thing. I think you must have been exposed to a great deal of that in your background, Senator Douglas.

The CHAIRMAN. May I say I welcome these converts to the case of a capital budget because that is what many of us have been urging for years. If we can distinguish between common capital acquisitions and current operating expenses, it will be seen that the current operating expenses are appreciably less than is commonly thought.

Mr. SHOEMAKER. I was on the task force committee on competition with private business enterprise and I can say to you there was great difficulty in establishing facts. This \$15 billion was finally developed with the cooperation of the Department of Defense, but I am sure in fairness it should be said that it is a little more than a reasonably informed estimate.

Representative CURTIS. Now, then, in the distribution area I think warehousing is a good checkpoint there although I can see where it would not be all-inclusive. I am looking for checkpoints where we can find the military moving into or staying in areas that would be—at least Congress ought to know whether they are in it or not in it.

MILITARY DUPLICATES CIVILIAN DISTRIBUTION SYSTEM

It seems to me, I think you mentioned it, that we have been making a great deal of emphasis on the production end, the procurement end, when distribution is one of the biggest items we have. Now I have long felt that in many, many instances the Military Establishment was duplicating our great civilian distributive system, unnecessarily I must say.

The Bonner committee used the coffee business as our sort of checkpoint and tried to use it as an example. The reason behind it was this, if I may express it. If you have a population, as we did then, of 170 million, you are going to have so much coffee drunk and it did not matter whether the 5 million of the 170 million were in uniform or 10 million were in uniform. The amount of coffee drunk would be approximately the same.

Therefore, for mobilization there need not be any increased amount of coffee roasting going on. Your distribution might change some, but even there to a large extent the distributive system could remain the same.

If that premise was right, it did not seem sensible to have the military duplicate, certainly there was no sense in duplicating production and there seemed little sense in duplicating distribution based upon the military production.

Fortunately, at long last the military is out of the coffee-roasting business, but they are reluctant to apply the lesson there to other areas which would be similar to coffee roasting.

Again getting back to this point of duplicating our distributive system, it seems to me that there has been a great deal of the waste, and if that is so the question is, is warehousing space a good way of checking whether they are in distribution?

Mr. SNOEKMAKER. I see what you are groping for, Mr. Curtis. It is a check. I am not so sure that it is a good check. After all, you have two or three things involved here.

First, we have had a pretty fast product change in many of the items stored by our Military Establishment. Weaponry changes, for example, have made great differences in the utilization of warehouse space as such. If you could restrict it to common use items rather than military hardware, it would be a better check. But again you almost have to get in a commodity analysis.

I was quite impressed with this detailed chart that Mr. Newman had, breaking down some of the larger kinds of items that are in this newly authorized single managership. From the standpoint of your committee, do we need to have athletic equipment and musical instruments in the military supply system when there is a commercial distribution system for those?

Certainly I do not believe it is necessary or the lack of it affects our military posture one iota.

Representative CURTIS. I think it might affect it this way: If we got the military people out of buying musical instruments and athletic equipment, they might devote themselves to real military problems.

Mr. SNOEKMAKER. It goes to the point you gentlemen made yesterday so effectively, I think.

The Military Establishment is proposed for defense needs. We have built into it over a period of years a great many other things that are costing manpower and dollars.

UTILIZATION OF WAREHOUSE SPACE

The CHAIRMAN. Congressman Curtis has raised the question whether any checks could be applied to the efficiency of the warehousing system. We collected material from all three services on the total amount of warehouse space which they have and the vacant storage space. We found that the gross space was 1,020 million square feet in all services, of which 75,300,000 square feet were vacant, or an overall average of 15 percent.

Now I would like to ask you gentlemen if you regard these percentages of unused space as significant, or is this about what you would expect in any operation where of course you can't fill the warehouse completely?

General WOOD. I think, Senator, anything over 10 percent would not be efficient.

On the other hand, don't forget that these warehouses are cramped with surplus goods. If we could get rid of the surplus we would have maybe 20 or 30 percent.

The CHAIRMAN. That was the second question I was going to ask.

Would you say that with the possible exception of the Air Force that the warehousing-facilities are not excessive for the existing stock of goods?

General Wood. For the existing stock of goods.

One other thing: If the country had not had this phenomenal growth of 30 million people between 1950 and 1960, we would have had available warehouse space in most of the great cities of the country, but because our population has grown so, the amount of commercial warehouse space has not been available.

Representative CURRIS. I might say that I do not know how extensive this is, we might look into it, the military are renting warehousing space to the civilian economy. To that extent I am glad that they are doing it. It immediately raises the question whether they should not sell the warehouse itself rather than remain in the position of landlord.

The CHAIRMAN. I have been troubled by a strong suspicion that there was simultaneous disposal and purchase of similar items. You may remember the scandal at Carpentersville where numerous items of construction and earthmoving equipment had been given away from Army surplus and finally wound up in the hands of the Civil Defense Authority in Carpentersville, who in turn allowed private contractors to use it in a subdivision.

I asked the General Accounting Office to use this as a test case and they tested 14 items, which had a value of well over \$200,000, to see if the services were simultaneously buying similar items. We had a report from them in November that in 7 of these 14 instances, this was the case. Over a year ago I made a tour through a number of so called Army surplus stores and sent an assistant of mine through an additional number of stores. It is very difficult to deal with these people because you never can be quite certain whether what they say is Army surplus is actually Army surplus.

I do not want to overstretch my evidence, but I saw boots which looked to me like Army boots and looked to me like pretty good marching boots and winter boots which probably were adopted for Korea, but I believe could be used in cold latitudes in the states, being sold.

That raises the question whether there was not simultaneous purchase of these items by one service or another at the same time similar items were declared surplus. Are these outcroppings of a naturally suspicious nature or are these suspicions founded in fact?

UNCOORDINATED SUPPLY SYSTEMS

General Wood. Senator, I have no doubt that there are some disposals of articles which are being repurchased somewhere else, but I think that is incidental. I don't think there is anything crooked about it. I think it is due to incompetency and this duplication of departments, procurement, warehousing and everything else.

They may be selling boots in St. Louis and they may be buying them in San Francisco for another department.

Mr. SHOEMAKER. May I comment on that for a moment, Senator Douglas?

The CHAIRMAN. Yes.

Mr. SHOEMAKER. First, on the warehousing part of this, if there is any place we should give the Department of Defense credit, in my opinion it is for the general improvement they have made in their depot system. They have brought uniformity of practice. They have standardized and they have been cutting back steadily in depot space. So whatever the date of this figure of yours may be, which averages out seven and a fraction percent, I feel confident from conversations I have had with the defense people that they have ahead of them a still further program of depot reduction for which they are entitled to great commendation, in my opinion.

The CHAIRMAN. Do you think the Air Force figure of 10 percent is excessive?

General Wood. Yes. Remember this, the Air Force started in in 1941 with no Supply Department. They were all green; everything was green. The Air Force supply system has not been up to that of the Army or the Navy, which are older.

Representative CURRIS. Of course the Air Force was told not to go into the supply of common-use items. That is one of the problems that we have which I regard as a matter of discipline.

I wish I could determine just who was involved in the disobedience that lay in their going out deliberately against orders and creating a separate supply system for common use items instead of relying, as they were supposed to do, on the Army system.

The CHAIRMAN. Do you have any further questions?

Representative CURRIS. I have only one detail. I notice that on this paint question there is an area where it happens there is a lot of it in the garbage pail.

With the setting up of a single manager for paint, which they are now doing, I am very happy to see that on procurement, but I am wondering whether that is not the kind of item and a lot of these hardware items like nails, and so forth, that we could not use the civilian distributive system—not necessarily talking at the retail level; it could be at the wholesale or whatever level the military might think was the most efficient—but certainly not duplicating the distributive system for these items in the civilian economy, which certainly ought to be reasonably adequate for it.

On paint, I daresay a lot of the paint that the military has in surplus, although it is listed as N-1 on their list, probably has deteriorated. I wonder on that specific item or on these hardware items whether or not this point I was trying to make of utilizing the civilian distributive system instead of duplicating it is well taken.

QUESTIONABLE ITEMS IN THE MOBILIZATION RESERVES

General Wood. There is certainly no sense in having such items as paint and hardware in mobilization or economic reserves. They should only carry enough paint in their warehouses for just quick turnover because they can get paint from every part of the country at any time.

Representative CURTIS. That would be my impression.

Mr. SHOEMAKER. You may recall, Mr. Curtis, that paint was one of the substantial manufacturing operations in the Department of Defense and it is one which they have closed down, to their credit.

Representative CURRIE. Yes; they were manufacturing paint; now they are out of that, which is good.

Mr. SHOEMAKER. Certainly as to paint, on this continent there is a readily available commercial supply. Whether there is justification for heavier paint storage in foreign warehouses, I do not pretend to know. We do not shoot paint, we do not have a strengthening of military posture by keeping it in the supply system. There is no question about it.

OFFSHORE PROCUREMENT

Representative CURRIE. That leads me to a question which opens up a new area and I hesitate to do it at this time, but it is really so important that I at least want to open it up even though we do not explore it. That is, you mentioned within the United States.

To me, one of the big problems in this area is offshore procurement, which should be related very closely in my judgment to our foreign aid program of trying to build the economies of these countries.

General Wood, I would like to make these comments to you, sir.

In World War II I was in the Navy antisubmarine section. Our main job was protecting the Panama Canal in the earlier days, but 70 or 80 percent of the bottoms used in our shipping down there was used for subsistence and maintenance of our personnel in the Canal Zone.

I had occasion a few years ago to go down to the Canal Zone. What shocked me was that we are really running a nice socialistic state down there. Items like bread, coffee, milk and so on could easily and readily have been procured from the Panamanian economy if we had undertaken to build their economy and we would not have to send back to the United States for a great deal of those things.

As I say, this is opening up a big area, but it is a relationship, it relates to our endeavors to build the economies of these various countries. Therefore, in my judgment, it should be coordinated.

Representative CURRIE. One other point and then I will have your brief comments.

When the Bonner committee was over in Europe looking into procurement—in fact, we were really over there because we had been told here by high-ranking people in the Air Force that they were not setting up warehousing and a system of supply for common use items in violation of orders; when we got to Germany and elsewhere we found out that they were—but one of the points that one of the Air Force men made in our hearings was that after all, they could not rely on the Army for, for example, pliers.

They said, "Just look what would have happened. Here we had the Berlin airlift and we had to go into an extra amount of maintenance on the airplanes and when we tried to get the tools from the Army, they didn't have them."

I said, "I thought the airlift had been extremely successful and you people deserve a great deal of credit. You must have gotten the tools."

He said, and there was a little bit of horror in his voice, "We had to buy them on the open market in Germany."

My comment was, "What is so wrong with that?"

On analysis, that was probably a system they could well have relied upon. So I just open up the subject. I know it is too large to discuss here, but I would appreciate any general comment you would like to make on that, whether or not this is not an area that we ought to dovetail into our program of building up these economies and relate offshore procurement to that.

General Wood. I will comment on Panama because I spent 10 years of my life there.

That system was formed, in fact, when we went down there. There was no population on the zone, there were no stores, there were no manufacturers, and we had to organize a system to feed and clothe our employees.

Well, it is like everything else. That is not so necessary today, but the commissary system was started in about 1907. That is 35 years ago. It was established and the people—the employees, are used to it.

They quite bitterly do not want to change it.

To go back to the question, a lot of it could be abolished today, but there it is. You know how difficult it is to offset it.

TRANSPORTATION

Mr. SHOEMAKER. Your point would even carry over in transportation, a subject with which I have had a slight acquaintance.

This military traffic management agency here as a single service is doing a splendid job within the limitations which have been put on it, but it stops at the continental United States.

The Defense Department is a worldwide organization and has great transportation problems and responsibilities on a worldwide basis.

But there is no traffic management in a central control sense that decides whether our military will manufacture their own transportation in an overseas theater, or whether it is purchased, is pretty much left to the theater commander under present circumstances.

Representative CURTIS. Yet in wartime they will actually do that, and they did in World War II, send teams of railroad men over to Iran, among other places in the world, where we really utilized the facilities of the country we were concerned about.

So it would seem, and this is in line with what Senator Douglas, I think, has stated, that if we are going to utilize these things in times of mobilization, why is it not logical in times of peace to operate on that same basic structure?

Mr. SHOEMAKER. It makes sense to me, sir.

The CHAIRMAN. We want to thank you, sir, Mr. Shoemaker and General Wood, for coming. We appreciate your testimony.

You have been public spirited citizens and have devoted much time and attention to it.

There are a few housekeeping items that I should like to take up now. It is not necessary, Mr. Shoemaker, for you to wait. This is still a public session. In order to get these items in the record I have to get the consent of the committee.

I would like to first say that I want to thank House Majority Leader John McCormack for his interest in this whole matter and also for loaning us this very efficient staff administrator, Mr. Ray Ward of his subcommittee, for several months on a no-cost basis, to us.

I also want to thank Mr. Newman for his very efficient work.

I have had correspondence with Congressman McCormack on the original purpose of the McCormack-Curtis amendment, to which he has replied. I am going to ask consent that the letter be placed in the hearings at this point and that an analysis of the four main reasons be printed.

(The material referred to follows:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., January 18, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
Washington, D.C.

DEAR CHAIRMAN DOUGLAS: I am pleased to learn from your letter of December 31, 1959, that definite plans have been made by the Joint Economic Committee to hold hearings on "The Impact of Government Supply and Service Programs on the National Economy."

It will be profitable, I am sure, if the committee explores the subject of implementation and planned implementation of existing laws applicable to the subject. This is particularly so with regard to the O'Mahoney amendment of 1952 which might well be called the O'Mahoney-Douglas amendment and the McCormack-Curtis amendment of 1958.

You requested me to comment on the need for the McCormack-Curtis amendment and its intent. Where were several reasons why I sponsored it.

First, it was necessary to remove the language from the National Security Act, as amended in 1949, which indicated that there should be "three departments separately administered" insofar as supply and services are concerned. Most efforts toward effective, efficient, and economical common supply and service management since 1949 have eventually grounded on this charter of separatism.

I consider that the McCormack-Curtis amendment, which incidentally was enacted on August 6, 1958, and received scant attention prior to your letter of inquiry to Secretary McElroy on January 15, 1959, gives the Secretary clear authority and a mandate to move vigorously ahead in common supply and service areas. The letters which you, Senators O'Mahoney, Lausche, Gruening; and Congressmen Curtis, Brown, and others have directed to the Secretary of Defense, the Director of the Budget, and the President's Economic Adviser during the past year have had an invigorating effect toward the redemption of responsibility vested in them by numerous enactments of the Congress.

I predict, Mr. Chairman, that the announcement of your hearings will also have a stimulating effect in this important area where decision and followup have been so sorely missing.

Related to the above point is the matter of constitutional government. My letter of October 24, 1955, attached, to Secretary Wilson emphasizes my concern in this respect. Secretary Wilson on September 2, 1955, complained to the three service Secretaries that DOD directives were not implemented. I stated to Secretary Wilson:

"Your concern with respect to DOD directives is similar to mine with respect also to congressional statutes. I am sure we both agree that our constitutional form of Government is in jeopardy whenever the executive agencies, regardless of motives, good intentions, or even greater wisdom in a given instance, choose the laws they will execute and those they will disregard.

"One of the most disturbing examples is that involving the so-called O'Mahoney amendment to the DOD Appropriations Act, 1953. The amendment, which is permanent law and as such is actually an amendment to the National Security Act (Unification Act) of 1947, calls upon the Secretary of Defense to develop an 'integrated supply system' and the Senate Report 1861 spells the intent out in detail.

"It should be stated that the O'Mahoney amendment was predicated to a great extent upon comprehensive hearings and reports of the Bonner and Hardy subcommittees of the House and the Preparedness Subcommittee of the Senate which pointed out the excessive overlapping, duplication, and waste within and among the services with respect to common supply and related matters.

"DOD Directive 4000.8 of November 10, 1952, constituted a good attempt to carry out the statute although it was limited to an intraservice basis generally rather than the intended integrated interservice basis. The directive did add some strength to the Alameda medical supply test which had been directed a year prior by the Secretary's order of July 17, 1951. Unfortunately, the service pressure became too great and the Alameda operation was broken up last spring though it was generally acclaimed a success.

"The whole story of the Alameda test was detailed to you in Congressman Thomas B. Curtis' 13-page letter of January 19, 1955. Certain of the Hoover reports confirm the conclusions of the congressional reports and enactments as to the need for more integration among the military services with respect to common supplies and services and as to the necessity of following applicable laws and regulations.

"As I view the situation, Mr. Secretary, not only is the basic problem of constitutional government involved but many other issues of real concern to the American people. I will comment briefly on some of them.

"The facts are conclusive that our educational facilities—though basic to defense—need great assistance. Large sums are required for the development and conservation of basic natural resources. Billions are needed for highways and public works. Costly outlays for fundamental and applied research are a must if we are to keep ahead in the technological race. Our health institutions are not in the state we desire. Oppressive taxes should be reduced, especially for the low-income groups. The budget requires balancing in its turn and the ever-growing national debt reduced.

"As you know, I am, and have always been an advocate for a strong national defense upon which to support a foreign policy. It is also essential to our survival. I will not be beguiled into laxity by the palliative tactics now emanating from the Kremlin. No one dares be. I believe that our defense and basic institutions should be strengthened in every possible way for the long pull ahead.

"But the evidence is conclusive that the overlapping, duplication, and waste is of such magnitude in and among the military services as to make possible enormous savings, with no loss of efficiency or military effectiveness, and thus release funds badly needed for the objectives listed above."

In addition to the instances of noncompliance stated above should be added that the legislative intent of the National Security Act of 1947 was that the Air Force would continue to get supply and service support from the Army as had historically been the case. The Eisenhower-Spatz agreements implemented this concept.

Despite this background, the new Air Force began to establish supply depots in the United States and over the world at tremendous expense. Trainloads of common supplies were moved from Army depots to Air Force depots. Much of this property has now been declared surplus and donated or sold at a few cents on the dollar. The installations themselves in a number of cases have been or will be declared surplus.

The cost of this venture by the Air Force is incalculable and was not within the intent of the law.

In reviewing legislation where the will of Congress has been disregarded I must also mention the Armed Services Procurement Act of 1947, Public Law 413, 80th Congress, 2d session. This act provides in section 2(c):

"All purchases and contracts for supplies and services shall be made by advertising, as provided in section 3, except that such purchases and contracts may be negotiated by the agency head without advertising if" (17 exceptions are here listed).

It should be noted that negotiated purchasing and contracting was to be the exception—not the rule.

In line with the intent of the law, the President of the United States admonished the five agencies named in the statute to use their authority with discretion. In identical letters of February 10, 1948, he wrote:

"The act states the basic policies of the Government with respect to procurement shall be placed with small business concerns. It also states that all purchases and contracts for supplies and services shall be made by advertising except under circumstances specified in the act where exceptions to this general policy may be made.

"This bill grants unprecedented freedom from specific procurement restrictions during peacetime. That freedom is given to permit the flexibility and latitude needed in present-day national defense activities. The basic need, however, remains to assure favorable price and adequate service to the Government. To the degree that restrictions have been diminished, therefore, responsibility upon the Defense Establishment has been increased. There is danger that the natural desire for flexibility and speed in procurement will lead to excessive placement of contracts by negotiation and undue reliance upon large concerns, and this must not occur." (The entire letter is attached hereto.)

Despite the intent of Congress and the admonition by the Chief Executive of the United States there has been a steadily rising use of negotiated contracting in our defense work. Chairman Vinson of the House Armed Services Committee testified on June 3, 1959, before the Senate Finance Committee that over 90 percent by number and volume of defense contracts were negotiated. Concurrently, there has been a growing concentration of the defense business in a fewer and fewer number of corporations. For example, in the period July 1950 to June 1951 the percentage by dollar volume of military contracts awarded to 100 companies and corporate groups was 61.2 percent with the first 10 receiving 28.6 percent. In calendar year 1958 the 100 largest contractors received 74 percent of the volume and the first 10 received 38.4 percent.

Concurrently, also, the number of fixed-price contracts has been decreasing in favor of the cost-performance type of contract.

A further disquieting aspect of the whole contracting situation is the statement of Chairman Vinson that the quality of the Government contracting officers is such that they are actually captives of the contractors.

The numerous GAO reports on contracting which have been made during the past 2 years also show that the quality of the negotiated contracts is not what it should be and that some drastic action needs to be taken to bring about an improvement.

The third reason for my sponsorship of the so-called McCormack-Curtis amendment was to point to the fact that savings through improved management of supply and service functions in the Department of Defense would go a long way toward financing schools, hospitals, roads, research, stream and air pollution, and other essential activities and programs for the Nation, including needed defense itself. Economy in the Department of Defense would prove to be a great source of income.

As to the scope of the amendment, the statement I made on the floor of the House on June 12, 1958, is self-explanatory. This statement appears at page 9027 and following, and a copy is attached.

I want to state that the McCormack-Curtis amendment is considerably broader than the previous O'Mahoney amendment in that it covers service functions in addition to supply functions and permits the removal of both from the category of major combatant functions. It also vests the Secretary of Defense with clear authority to deal positively in obtaining economy, efficiency, and effectiveness in these areas which use some 60 percent of the annual military budget.

Again let me congratulate you and the members of your excellent committee in the important work you are doing in connection with these hearings.

Sincerely yours,

JOHN W. MCCORMACK,
Majority Leader.

CONGRESS OF THE UNITED STATES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., October 24, 1955.

Hon. CHARLES E. WILSON,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: I have read with great interest and appreciation your memorandum of September 2, 1955, to the three service Secretaries and Assistant Secretary of Defense (M. & P.) on the subject of "Implementation of DOD Directives."

The first paragraph of the memorandum states:

"I am increasingly concerned over the growing criticism in the Congress and elsewhere of the lack of consistency in the manner in which the military depart-

ments carry out the purpose and intent of DOD directives. Some of the Hoover Commission reports are quite explicit on this point."

Your concern with respect to DOD directives is similar to mine with respect also to congressional statutes. I am sure we both agree that our constitutional form of government is in jeopardy whenever the executive agencies, regardless of motives, good intentions, or even greater wisdom in a given instance, choose the laws they will execute and those they will disregard.

My growing concern was further aroused a year ago when the DOD decided to bypass the clear intent of law with respect to the transfer of surplus property needed by our grossly inadequate educational and health institutions.

More recently, the issue is raised again by the decision of the Comptroller General of the United States with respect to the important SAGE program.

One of the most disturbing examples is that involving the so-called O'Mahoney amendment to the Department of Defense Appropriations Act, 1953. The amendment, which is permanent law and as such is actually an amendment to the National Security Act (Unification Act) of 1947, calls upon the Secretary of Defense to develop an "integrated supply system" and the Senate Report No. 1861 spells the intent out in detail.

It should be stated that the O'Mahoney amendment was predicated to a great extent upon comprehensive hearings and reports of the Bonner and Hardy subcommittees of the House and the Preparedness Subcommittee of the Senate which pointed out the excessive overlapping, duplication, and waste within and among the services with respect to common supply and related matters.

DOD Directive 4000.8 of November 19, 1952, constituted a good attempt to carry out the statute although it was limited to an intraservice basis generally rather than the intended integrated interservice basis. The directive did add some strength to the Alameda medical supply test which had been directed a year prior to the Secretary's order of July 17, 1951. Unfortunately, the service pressure became too great and the Alameda operation was broken up last spring, though it was generally acclaimed a success.

The whole story of the Alameda test was detailed to you in Congressman Thomas B. Curtis' 13-page letter of January 19, 1955. Certain of the Hoover reports confirm the conclusions of the congressional reports and enactments as to the need for more integration among the military services with respect to common supplies and services and as to the necessity of following applicable laws and regulations.

As I view the situation, Mr. Secretary, not only is the basic problem of constitutional government involved but many other issues of real concern to the American people. I will comment briefly on some of them.

The facts are conclusive that our educational facilities—though basic to defense—need great assistance. Large sums are required for the development and conservation of basic natural resources. Billions are needed for highways and public works. Costly outlays for fundamental and applied research are "a must" if we are to keep ahead in the technological race. Our health institutions are not in the state we desire. Oppressive taxes should be reduced, especially for the low-income groups. The budget requires balancing in its turn and the ever-growing national debt reduced.

As you know, I am, and have always been an advocate for a strong national defense upon which to support a foreign policy. It is also essential to our survival. I will not be beguiled into laxity by the palliative tactics now emanating from the Kremlin. No one dares be. I believe that our defenses and basic institutions should be strengthened in every possible way for the long pull ahead.

But the evidence is conclusive that the overlapping, duplication, and waste is of such magnitude in and among the military services as to make possible enormous savings, with no loss of efficiency or military effectiveness, and thus release funds badly needed for the objectives listed above.

Presently, the stock funds for essentially common supply items in the four services (Army, Navy, Air Force, and Marines) have an unallotted cash reserve of \$45,300,000; cash of \$1,870,500,000 and inventories of \$8,103,000,000 or a total of \$10,018,800,000. This total, large though it is, is only a fractional part of the total personal property inventories in the services. Competent testimony before congressional committees points to the long supply in many of these items, to their duplication and triplication in the separate depot systems embracing millions of square feet of valuable space.

The current surplus property disposal program which involves an estimated \$2 billion annually, plainly shows that there is not integration among the serv-

'ees as to procurement, storage, utilization, or disposal of the numerous items. On the contrary, the daily lists of proposed purchases and sales which come to my attention show the evident need for common control and management of these common items.

I should appreciate learning of any plans underway which are designed to carry out the full intent of the O'Mahoney amendment.

It is my purpose to furnish copies of this letter and your reply to Members of the Congress in both Houses who are intimately concerned with this matter, and to keep the public advised.

Sincerely yours,

JOHN W. McCORMACK.

THE WHITE HOUSE,
Washington, February 19, 1948.

HON. JEROME C. HUNSAKER,
Chairman, National Advisory Committee for Aeronautics,
Washington, D.C.

MY DEAR MR. HUNSAKER: I have today signed H.R. 1366, which has been passed by the Congress to facilitate procurement of supplies and services by the Departments of the Army, the Navy, and the Air Force, the Coast Guard, and the National Advisory Committee for Aeronautics, and for other purposes.

H.R. 1366 replaces a series of intricate and sometimes conflicting regulations which have impaired the efficient operations of procurement officers in the military agencies, the Coast Guard and the National Advisory Committee for Aeronautics. I know that under your administration the new act will make possible more efficient and systematic procurement.

The act states the basic policies of the Government with respect to procurement by the armed service. It declares that a fair proportion of all procurement shall be placed with small business concerns. It also states that all purchases and contracts for supplies and services shall be made by advertising, except under circumstance specified in the act where exceptions to the general policy may be made.

This bill grants unprecedented freedom from specific procurement restrictions during peacetime. That freedom is given to permit the flexibility and latitude needed in present-day national defense activities. The basic need, however, remains to assure favorable price and adequate service to the Government. To the degree that restrictions have been diminished, therefore, responsibility upon the Defense Establishment has been increased. There is danger that the natural desire for flexibility and speed in procurement will lead to excessive placement of contracts by negotiation and undue reliance upon large concerns, and this must not occur.

For those reasons, I am asking you to specify detailed standards to guide your procurement officers concerning the placing of business with small concerns and the circumstances under which they may waive the general policy of advertising for bids. It is of great importance in procurement matters to establish standards and definitions to guide all personnel who have authority to place contracts. Otherwise, differences in interpretation and policies may result in imprudent contracts and give rise to doubts about the wisdom of this new procurement system.

As soon as practicable, I would appreciate a report from you concerning your general plans for implementing this act. I am also asking you to report annually, as of the end of each fiscal year, the total value of contracts negotiated under the individual paragraphs of section 2(c), and the total value of contracts placed with small business concerns during the year.

Sincerely yours,

HARRY TRUMAN.

HOUSE OF REPRESENTATIVES FLOOR DEBATE ON THE McCORMACK-CURTIS AMENDMENT TO THE DEFENSE REORGANIZATION ACT OF 1958

Mr. VINSON. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I yield to the gentleman from Georgia.

Mr. VINSON. The distinguished gentleman gave the gentleman from Texas [Mr. Kilday] and me and others the privilege of examining this amendment. We have examined it and know exactly what it means. Its purpose is to bring about a more unified and economical procurement of items which are com-

mon to two or more military services. Last year some \$1,200 million was procured under a single service manager, through whom the four services are buying medical supplies, clothing, and other things. There is no objection from our side to this amendment.

Mr. DEVEREUX. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I yield to the gentleman from Maryland.

Mr. DEVEREUX. Mr. Chairman, I am sorry I was not privileged to find out exactly what this amendment provides. I should like to hear an explanation of it, and a very clear explanation. If it provides for a single agency to procure everything for our military departments, then I think it might be very dangerous. We might have the tail wagging the dog. So I for one want a thorough discussion of it.

Mr. VINSON. This deals with a single method of procurement. I know what runs through the gentleman's mind. The amendment is valid, in my estimation.

Mr. GAYN. I would suggest we permit the gentleman to proceed and explain.

Mr. McCORMACK. The gentleman from Georgia is doing it much better than I could.

Mr. Chairman, you remember the years of effort by the gentleman from Missouri [Mr. Curtis], the gentleman from North Carolina [Mr. Bonner], the gentleman from Virginia [Mr. Hardy], the gentleman from Michigan [Mr. Menden], and myself and any number of others, and Senator O'Mahoney and others, in connection with trying to bring about greater efficiency and economy in the armed services. This is really the culmination of those years of effort. The result is this amendment. If adopted and carried out, it could save many, many hundreds of millions of dollars each year. It has been carefully gone into by the committee.

Mr. DEVEREUX. I beg the gentleman's pardon. It has not been gone into carefully, at least by the Armed Services Committee.

Mr. McCORMACK. I assure the gentleman I consulted with Members on your side, who have been studying this matter for many, many years. They are thoroughly acquainted with it.

Mr. BROOKS of Louisiana. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I yield.

Mr. BROOKS of Louisiana. I am thoroughly in accord with the amendment. It is an excellent amendment. It will save the Government many, many dollars. I hope the amendment is carried unanimously.

Mr. DEVEREUX. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I am glad to yield to my colleague.

Mr. DEVEREUX. Will it be possible to have an explanation of exactly what this amendment means?

May we have the amendment reread by the Clerk?

Mr. McCORMACK. Mr. Chairman, I ask unanimous consent that the amendment be read again.

The CHAIRMAN. Without objection it is so ordered.

There was no objection.

The amendment was again reported.

Mr. DEVEREUX. I would like to ask the gentleman: Is that not now being done to a degree, where we are having a service that is given the responsibility for now supplying these common-use items?

Mr. McCORMACK. Not to the extent that it can be done, if this amendment is adopted. There is a cloudiness and vagueness in this area. During the past few months I have talked with the Assistant Secretary of Defense, Perkins McGuire, for example, who is a very fine gentleman—not because he comes from Massachusetts—but he is a very fine gentleman, as well as a fine public official.

Mr. DEVEREUX. Even though he is a Republican.

Mr. McCORMACK. We have discussed this problem together with the gentleman from Missouri [Mr. Curtis] and the gentlewoman from Illinois [Mrs. Church], and others.

This amendment has been very carefully worked out. The suspicions of my good friend are simply not justified.

The CHAIRMAN. The time of the gentleman from Massachusetts has expired.

Mr. DEVEREUX. Mr. Chairman, I ask unanimous consent that the gentleman from Massachusetts may proceed for 5 additional minutes.

The CHAIRMAN. Is there objection to the request of the gentleman from Maryland?

There was no objection.

Mr. CURTIS of Missouri. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I will yield now to the gentleman from Missouri [Mr. Curtis] and then I will yield to the gentleman from Maryland. I am sure the gentleman from Missouri can make a contribution to a better understanding of the amendment.

Mr. CURTIS of Missouri. The only reason I have asked the gentleman to yield is that I took 10 minutes yesterday to explain some of the background of this amendment. I extended my remarks quite extensively and it is in today's Record. I think the gentleman from Massachusetts has stated it accurately when he said that this was worked out over a period of many years and a study was made of the difficulties in enforcing the O'Mahoney amendment in the common-supply area of the Military Establishment. I certainly am strongly behind this amendment, and I think it will go a long way toward clearing up a cloudiness and uncertainty in this area.

Mr. DEVEREUX. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I yield.

Mr. DEVEREUX. I regret I was not present on the floor of the House when the gentleman from Missouri was explaining this proposal. However, we all recognize it is not possible to be on the floor of the House at all times every day although I was very attentive practically every minute on yesterday. However, I would like to ask this question: Under this proposed amendment, would it not be possible to establish in the Department of Defense an agency which would take over the functions now being carried on by the various services? I am talking about supply, logistics, procurement, and all of that.

Mr. McCORMACK. In relation to supply and services in some limited respects, it probably could be done, but certainly in the field in which this amendment is confined, I think everyone recognizes we should make progress because this is the field where we can eliminate unnecessary duplication on common-use items and thereby save countless hundreds of millions of dollars each year to the taxpayer.

Mr. DEVEREUX. If the gentleman will yield again, I would like to point out that the amendment which was just defeated, in my judgment, would have gone a great way to accomplishing that very thing.

Mr. McCORMACK. Let us discuss the amendment which is now before us.

Mr. DEVEREUX. All right, sir, let us discuss this amendment.

If you establish an agency that is going to control the supplies going out to the services, that is one single agency, then you have the possibility of a supply branch influencing the outcome of a military operation. I think that is extremely dangerous and we should be on the alert so far as that is concerned.

Mr. VINKON. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I yield.

Mr. VINKON. I submitted this amendment to Secretary McElroy, and the record shows in the Armed Services Committee a communication from the Secretary of Defense to the effect that they have no objection to this amendment.

Mr. McCORMACK. I thank the gentleman.

I yield to the gentlewoman from Illinois [Mrs. Church].

Mrs. CHURCH. I thank the gentleman for yielding to me at this time. There is no amendment which will more cut to the heart of duplication and waste in military procurements than the one that the gentleman has offered. If anyone has not become already disillusioned about the inefficiency and extravagance in Government, they should go into procurement methods of the armed services, caused by multiple purchasing and duplication. In these last two Congresses following my study as a member of the Government Operations Committee, I have introduced bills to remedy this situation. This amendment may do more to produce saving to the taxpayer than any other part of the bill.

There are two things I want to say. In the first place, I wish to call attention to the words in the gentleman's amendment, that "when the Secretary of Defense shall deem it advantageous," and then only, shall he so act. This allows a great deal of latitude, because the Secretary would have it within his discretion and power to determine what steps he could consider advantageous. Secondly, it so happens that last year I took occasion to visit one agency which has so operated. It is the Military Subsistence Supply Agency in Chicago. Gen. H. R. McKenzie of that agency has been doing the food procurement for all branches of the service and doing it with economy and with benefit to the service. Certainly I would say that this is a good example of what could be done if the gentleman's amendment is accepted by the House. I do not think that

its benefits can be overestimated. We have waited 8 years for such purchasing by single agency, as is herewith permitted.

Mr. BRAY. Mr. Chairman, will the gentleman yield?

Mr. McCORMACK. I yield.

Mr. BRAY. Without speaking to the merits of this amendment, I do not believe it has been clarified yet exactly what it does. This part of the bill goes into the major functions of the Department of Defense. Major functions cannot be changed without the consent of Congress, under certain conditions. This amendment says that you cannot call a matter a major function if it has to do with supplies. I do not think that has been properly explained. If this amendment carries, and the Army, Navy, Air, or Marine says this is a major function it could cause it to come back to Congress. If it is a supply matter they can bring about this reform or this change without any consideration of Congress. Otherwise, if it is a major function, it would have to come to Congress. This merely eliminates that roadblock.

Mr. McCORMACK. The gentleman is correct in that respect.

Mr. Chairman, in further explanation, I have introduced an amendment to H.R. 12541, the Department of Defense organization bill, as follows:

"At page 5, after line 3, insert the following:

"(4) Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate. For the purposes of this subsection (4), any supply or service activity common to more than one military department shall not be considered a "major combatant function" within the meaning of subsection (3) above."

"Remember succeeding subsections (4) and (5) as subsections (5) and (6)."

The purpose of this amendment is to obtain greater effectiveness, economy, and efficiency in supply and service activities in the Department of Defense. These activities are commonly known as support activities or noncombatant activities.

It should be borne in mind that when the National Security Act of 1947 was being considered the proponents of a separate Air Force assured the Congress that there was no intention of establishing additional supply and service activities for the new Air Force Department and that such support where practical would continue to come from the Army as had been the case for many years. The so-called Eisenhower-Spautz agreements to implement the Security Act reemphasized the proposition that supply and service activities for the new department would come from the Army. Despite the intent of the law and the Eisenhower-Spautz agreement, the Air Force proceeded with all haste to establish its own supply and support activities. Efforts should have been made at this time to integrate the supply and service systems of the Army and the Navy. The Bonner committee in 1951 and 1952 investigated this division at great length and found that the Air Force was establishing depots and other service facilities all over the world at a tremendous duplication and triplication in expense.

It will be recalled that General Eisenhower, in September 1952, in a speech at Baltimore protested at great length at the expense and extravagance that had been built into the three departments contrary to the express promises to the Congress. The general also stated that he was going to take vigorous action to stop this needless waste. Unfortunately, he has not done so and the reorganization bill which he sent to Congress failed to take into consideration the supply and service activities.

These activities include procurement, warehousing, distribution, cataloging, and other supply activities, surplus disposal, financial management, budgeting, disbursing, accounting, and so forth, medical and hospital services, transportation—land, sea, and air—intelligence, legal, public relations, recruiting, military police, training, liaison activities, and so forth, and use an estimated 66 2/3 percent of the military budget.

It is also estimated that procurement activities alone utilize 50 percent of the budget.

Recent investigations by the Bonner committee, Riehlman committee, Harden committee, Hébert committee, Johnson committee, and others have shown conclusively the extent of overlapping, duplication, and waste in the supply and service activities in the four military services and the many corps, bureaus, and commands.

The first Hoover Commission reported that the military departments had an inventory of \$27 billion in fiscal year 1948. A recent report by the House Government Operations Committee shows that the supply-system inventories of the services as of June 30, 1957, were in excess of \$54 billion. This was twice the inventory reported in fiscal year 1948. Furthermore, the same report indicates that the worldwide personal property inventory of the military services was \$117 billion as of June 30, 1957.

An analysis of the supply-system inventories shows that much of the stock in each of the services is in excess classification. These excess stocks run into the billions of dollars and current plans are to declare surplus this year approximately \$6 billion worth of personal property based upon acquisition cost. Since all of this inventory is not under uniform control there is conclusive proof that one service may be buying the same items that another is declaring excess and selling for a few cents on the dollar.

Some progress has been made in the last 2 years in establishing single managers in the Department of Defense for a few categories of common supplies. At the present time four categories—namely, clothing and subsistence, petroleum, medical supplies—have been included in the single-manager systems. However, only 47,000 items out of a possible 3,350,000 items covered by the catalog system have been included in the single-manager program. Such obviously common-type items as general stores, photographic supplies, electronic items, engineering equipment, and communications equipment have not been brought into the single-manager system.

When the so-called O'Mahoney amendment was enacted in 1952 it was the intention of the Congress that an integrated supply system be developed and while a good start was made in 1952 it is to be noted that in subsequent years the act was almost totally ignored and progress toward efficiency, economy, and effectiveness in supply management activities was largely ignored.

The amendment which I have offered today includes not only supply activities which in a sense is a duplication of the O'Mahoney amendment, but also includes all other service activities.

The amendment is not intended to advocate any particular type of organization, either centralized or decentralized; it merely provides for maximum flexibility so that the Secretary of Defense is empowered to provide, after thorough study, the best possible type of operation for supply and service functions depending upon their nature. Effectiveness is to be the key in making the determinations with economy and efficiency very important but secondary considerations.

The language is intended to permit the Secretary, that is, to permit one Department, to operate for the benefit of all if this is considered advisable as in the present situation with the Army handling chemical and biological functions for the Department of Defense. Under the language it might be considered advisable that the Secretary have a joint staff represent the Department before regulatory bodies on transportation matters or utility services generally. Such activities as weapons evaluation could be handled as now in the Office of the Secretary of Defense. I shall repeat that the fact and circumstances with respect to the individual supply and service activity should govern and that the amendment is not intended to establish a fixed pattern.

It would be my opinion that in the unified commands there would be a high degree of consolidation and standardization of supplies, equipment, forms, procedures, regulations, and so forth, in order to have maximum flexibility to provide for free exchange between the commands and to save on staff, transportation facilities and so forth.

In order that there will be no confusion the amendment specifically states that supply and service activities shall not be considered as being major combatant functions within the terms of the bill.

I am confident that the enactment of this amendment will provide the flexibility needed to meet the fluid conditions that face us today and will also make possible savings which will run into large sums of money which can more profitably be spent on productive military functions and upon such activities as school facilities, medical improvement, conservation of natural resources, reclamation programs, highways, and so forth.

(Mr. McCormack asked and was given permission to revise and extend his remarks.)

Mr. RIEHLMAN. Mr. Chairman, I also in support of the amendment offered by my distinguished colleague and majority leader of the House, the Honorable John McCormack. I am not going to dwell on the provisions of this amendment as they have been amply covered by the gentleman from Massachusetts.

I know of his keen interest in the field of military procurement and supply system. I also know of his profound interest in the field of research and development and the outstanding support he gave me as chairman of the Subcommittee on Military Affairs of the House Committee on Government Operations while we were holding hearings in the 83d Congress on this most important subject.

The remainder of my time I wish to devote to what I feel will be accomplished in research and development when this legislation which we are considering today becomes law.

Mr. Chairman, during the 83d Congress, as a member of the House Committee on Government Operations, it was my privilege to serve as chairman of the Subcommittee on Military Operations. One of the major studies to which our committee devoted much attention concerned organization and administration of military research and development programs.

The 24th Intermediate report of the Committee on Government Operations, which was House Report No. 2048, 83d Congress, issued August 4, 1954, was written as a result of that detailed study.

Our committee offered a number of recommendations which, if implemented, would streamline procedures of the Department of Defense in research and development. A chief point in our report to the Congress was the proposal to coordinate research programs directly through the Office of the Secretary of Defense, the result of which would be to assign to these programs the importance demanded in the planning and operation of a modern defense establishment.

It is most satisfying to me, and I am certain to other members of the subcommittee who labored diligently on this study during the 83d Congress, to have in sight at last the fulfillment of those recommendations to achieve the needed direction and high status so essential to this program.

The recommendation of the President in his April 3 message to the Congress stated:

"We must reorganize the research and development functions of the Department in order to make the best use of our scientific and technological resources."

The President further added that the Secretary of Defense should have complete and unchallengeable control over research and development organization and funds and that he must have full authority to prevent unwise service competition.

The Committee on Armed Services of the House in submitting House Report No. 1765 to accompany H.R. 12541, said the proposed legislation provides for placing defense research and engineering under one responsible official with the power to stop unnecessary duplication, speed up essential work and eliminate unnecessary competition or rivalry.

The committee said it is congressional intent to "eliminate unnecessary duplication in the Department of Defense, but particularly in the field of research and engineering by vesting its overall direction and control in the Secretary of Defense."

The executive branch of Government and the Committee on Armed Services are to be commended for the effort that has been made to establish a coordinated program of research and development that most certainly will yield increased results in present levels of operation and open the way for accomplishments in many new and different directions.

Approval of this legislation will bring into effect a number of the recommendations concerning research and development made by our committee 4 years ago.

Certainly it should mean more complete coordination in all of our research and development programs, which, in turn, will have a highly contributive effect in the eliminating of duplication and the trimming away of waste.

Another important and vital factor will be the achievement of the reduction in leadtime in our various scientific projects. We all are cognizant, I am sure, of the necessity of bringing the greatest speed possible to our many projects by shortening the time between origination of an idea for a weapon to the development and production of that weapon. This will be accomplished through this legislation without damage to scientific endeavor by the elimi-

nation of cumbersome factors which throw roadblocks into the efforts of our scientific and engineering personnel.

I view the potentialities of our research and development program with much optimism should the proposed legislation receive the approval of the Congress. It will mean research and development, at long last, will assume the role to which it is deserving.

Our scientific and technical programs will be placed in a position to provide the greatest benefit to our Nation as we enter the space age. Our entire defense structure and effort will be further advanced to the fullest degree as we permit endeavors in this vital field to move ahead at a rapidly increasing pace.

Before concluding my remarks I do want to address myself to the amendments to the bill as recommended by the President.

The recommendations proposed by the President are necessary. If we are to have the reorganization in our Defense Establishment that we seek, we should adopt the President's proposals. If we do not want these changes made, let us not make a pretense at reorganization by approving something that will not do the job.

I will support the defense reorganization bill with the amendments that have received the approval of the President. I support this particular form because I sincerely believe it provides the long-awaited solution to resolving many of the difficulties in our defense organization which have been of major concern and subject to considerable criticism through the years from the Congress, the Hoover Commission, and the many other interested groups and individuals who have followed this closely.

We will take a forward step through adoption of this legislation with the amendments as recommended by the President. Today we can visualize only very minutely the achievements that will result from our action. Tomorrow the concrete results will be told in a defense structure that will be the most formidable this country has ever had.

It will be a defense structure functioning on the most improved and sound fiscal policy we could have. The truth of our actions today will be told in the programs of tomorrow when our country will continue to remain secure, knowing full well that we are the most powerful Nation on the earth equipped to resist any effort of aggression against us.

The President's proposal is vital to the preservation and enhancement of the security of America and her people. He has my full support to this end.

Mr. GROSS, Mr. Chairman, I move to strike out the last word. I want to ask the gentleman from Massachusetts [Mr. McCormack] if his amendment provides for the creation of additional Assistant Secretaries or assistants to Assistant Secretaries.

Mr. McCORMACK, It does not.

Mr. GROSS, I thank the gentleman.

Mr. MEADER, Mr. Chairman, I move to strike out the required number of words. I support the amendment offered by the gentleman from Massachusetts, and I ask unanimous consent to extend my remarks at this point.

The CHAIRMAN, Is there objection?

There was no objection.

Mr. MEADER, Mr. Chairman, the purpose of the amendment offered by the gentleman from Massachusetts [Mr. McCormack] is the elimination of the duplication of supply services in the military departments which many present and former members of the Committee on Government Operations have sought since the 82d Congress.

The subcommittee of what was then the Committee on Expenditures in the Executive Departments under the chairmanship of the gentleman from North Carolina [Br. Bonner] conducted in extensive investigation of the effort of the Air Force to set up its own procurement and supply system for common use items which up until that time had been supplied to Air Force units by the Army.

The Bonner subcommittee conducted hearings in Washington, in many points within the United States, and at overseas military installations. It compiled a record of evidence which was overwhelming—that the proposed separate individual supply system for the Air Force for common use items was wholly unnecessary and extremely wasteful.

April 9, 1952, the House in Committee of the Whole debated the defense appropriation bill for fiscal year 1953. Many of the members of the Bonner subcommittee offered amendments reducing appropriations. I, myself, offered an

amendment to cut \$180 million from the item of "Major procurement other than aircraft" because I was advised that it was in that item that a substantial portion of the funds were provided for establishing a separate Air Force supply system for common use items. After debate, in which the Appropriations Subcommittee chairman opposed the amendment, on a teller vote the amendment was adopted by a vote of 81-72.

Subsequently, in the section of the bill containing general provisions, I offered another amendment designed to prohibit the Air Force from establishing a separate supply system for common use items in the following language:

"Sec. 630. No part of the funds herein appropriated shall be used to expand the personnel, facilities, or activities of the Department of the Air Force to establish or maintain a separate system for providing such supplies and services as were furnished to the Department of the Air Force by the Department of the Army prior to August 1, 1951."

The amendment was adopted by the committee by a vote of 134 to 87, and remained in the bill passed by the House.

Thus, Mr. Chairman, the House of Representatives was clearly on record as opposing establishment by the Air Force of its own supply system for common use items previously supplied it from Army sources.

Mr. Chairman, when the defense appropriations bill for 1953 was considered by the Senate, an alternative approach was offered by the Senator from Wyoming [Mr. O'Mahoney], which in effect ordered the Secretary of Defense to issue directives preventing unnecessary duplication of supply services for common use items. The O'Mahoney amendment had the same objectives as the amendment which I had offered and the House had overwhelmingly adopted. But, instead of rigidly denying funds to the Air Force to set up its own supply system, the O'Mahoney amendment instructed the Secretary of Defense to accomplish that objective.

The Secretary of Defense did in fact issue directives relating to supply of common-use items and the Bonner subcommittee or its successors held hearings with respect to those directives.

Subsequently, Mr. Chairman, the Hoover Commissions found extensive duplication and overlapping in the supply systems for common-use items in the military departments and strongly urged that such duplication and waste be eliminated.

Mr. Chairman, I know of no recent inquiry by any committee of Congress to establish the situation as of today with respect to the Air Force supply system. However, information has come to my attention indicating that, notwithstanding the clear view of the Congress, the directives of the Secretary of Defense, the strong recommendations of the Hoover Commissions, the Air Force doggedly and bullhoundedly has proceeded with its original program and, by and large, has established its own system of supply for common-use items. Thus, Mr. Chairman, I welcome the effort of the majority leader to write into the Defense Reorganization Act language to reassert the policy of the Congress with respect to duplicating supply systems. I hope his amendment will be adopted.

Frankly, however, I question whether the language is tight enough to accomplish the objective we all have in mind. Unless there is a sincere and abiding desire to avoid duplication in whoever may be the Secretary of Defense and his associates, and unless there is constant vigilance on the part of the committees of the Congress, I fear that the military officials will go ahead in their own sweet way to establish and maintain their separate, independent—I might almost say sovereign—empires of bureaucracy with their wasteful duplication of services and supply.

I expressed this point of view in an exchange of correspondence with the majority leader, a copy of which I insert at this point in my remarks:

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
May 14, 1958.

HON. GEORGE MEADER,
House of Representatives.

DEAR GEORGE: For your interest and information I am enclosing a copy of a letter I have addressed to the Honorable Carl Vinson concerning the military reorganization bill.

Sincerely yours,

JOHN.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
May 13, 1958.

Hon. CARL VINSON,
Chairman, Armed Services Committee,
House of Representatives.

DEAR CARL: In further reference to my letter of May 9, 1958, I have had occasion to discuss the very important military reorganization bill with a number of people in both branches and both sides of the aisle particularly with respect to the need to facilitate improvement of the noncombatant supply and services activities within and among the defense agencies.

I realize that it is difficult to provide for a uniform pattern of operation for these things inasmuch as some, like the supply single managers, may lend themselves to a centralized operation and others do not. For this reason I would suggest that the committee, at the proper place or places in the bill, insert some flexible language along the following lines:

"Notwithstanding any other provisions of law, the Secretary of Defense may provide for carrying out any supply or service activity common to more than one military department by a single agency or combination of agencies where he determines, after consultation with the Secretaries of the military departments concerned, that to do so will be advantageous to the Government in terms of economy, efficiency, and effectiveness."

Sincerely yours,

JOHN W. MCCORMACK.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
May 15, 1958.

Hon. JOHN W. MCCORMACK,
Member of Congress,
The Capitol, Washington, D.C.

DEAR JOHN: Thanks for your note of May 14 and the copy of your letter of May 13 to Congressman Vinson.

I read your suggested amendment with interest and agree with its objective. My only question is whether or not it is strong enough.

You may recall that I offered an amendment in the early 1950's to prevent the Air Force from setting up a third supply system for common-use items it had been receiving from the Army supply system. This amendment, which was rigid and enforceable, was adopted by the House, but in the Senate an alternative proposal by Senator O'Mahoney resulted in instructing the Secretary of Defense to accomplish this objective. I have discovered more or less by accident in connection with other oversea inquiries that the O'Mahoney approach was unsuccessful in preventing the Air Force from setting up a third supply system for common-use items. This, of course, is in direct violation of the announced purpose of the Congress and was possible only because of a soft approach.

I should be very happy to work with you in getting something written into the law which will prevent effectively unnecessary duplication and waste in the supply system, particularly of common-use items.

Sincerely,

GEORGE MEADER.

Mr. Chairman, it is my hope that if the amendment of the gentleman from Massachusetts becomes law, the appropriate committees of the Congress, especially the Armed Services Committee, the Appropriations Committee, and the the Government Operations Committee, will maintain a constant, running inquiry into the extent of the obedience by the military officials to the clear will of Congress as expressed in the amendment of the gentleman from Massachusetts and as maintained by the Congress for the past 8 years. Without such vigilance by congressional committees I am afraid the language offered by the gentleman from Massachusetts will become a noble but ineffective gesture.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Massachusetts.

The amendment was agreed to.

The CHAIRMAN. I also ask unanimous consent to have inserted in the record the statement of the U.S. Chamber of Commerce, which was forwarded to me.

(The statement referred to follows:)

STATEMENT BY CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States appreciates the opportunity to present its recommendations with regard to what Chairman Douglas has described as the "administrative and legislative actions that are deemed necessary and desirable to bring about improvements in military supply and service system and procedures."

As Mr. Douglas indicated in his October 2 letter to President Erwin D. Canham, the national chamber has taken an active interest in this subject matter for a number of years and from time to time has submitted recommendations to the committees of Congress with respect thereto. These actions included testimony or statements in support of—

(a) The National Security Act of 1947 and the 1949 amendments.

(b) The O'Mahoney-Douglas amendment to the 1953 Defense Appropriation Act, in which Congress directed that the military supply systems be integrated.

(c) The major recommendations of the First and Second Hoover Commissions, particularly the 1955 report on business organization of the Department of Defense.

(d) The 1958 Defense Reorganization Act, particularly the so-called McCormack amendment relating to supplies and services common to more than one military department.

The chamber is aware of the efforts made during the last few years to improve the organization and management of the Defense Department's noncombat support-type activities. We have in mind such things as—

(a) Completion of the identification phase of the supply catalog program.

(b) Standardization of thousands of items in the military supply inventory.

(c) The streamlined organization and procedures for surplus property disposal.

(d) Substantial reductions in the military department inventories.

(e) Establishment of the Armed Forces Supply Support Center.

(f) Consolidation of inspection and test facilities.

(g) More effective utilization of competitive negotiation and the so-called weapons system concept of procurement.

(h) The single manager commodity assignments.

The Department of Defense, and Assistant Secretary (Supply and Logistics) Perkins McGuire in particular, are to be commended for these and other actions in the direction of a truly integrated military supply system.

But despite the conscientious efforts of Mr. McGuire and many of his associates, the progress to date, when compared with the magnitude of the problem and the billions of dollars involved, has been woefully inadequate. This is due, in part, to factors outside the control of the Department of Defense. But it is due, primarily, to the continuing reluctance of Defense policymakers and those who administer the multi-billion-dollar program to insist that space age security requirements take precedence over cherished but costly traditions, and to take the difficult but necessary actions that will result in long-overdue attainment of a truly unified Military Establishment.

The national chamber has been and remains particularly concerned about five major problem areas:

1. The Defense Department's failure to utilize the 1958 Defense Reorganization Act—particularly the McCormack amendment—as a means of achieving improved organization and management of the Department's noncombat support-type activities.

2. The continued operation of nearly 2,000 military-commercial-industrial type activities, most of which provide or produce products and services that are readily available at reasonable prices from privately owned taxpaying enterprises.

3. Major deficiencies in the Armed Services Procurement Act of 1947, which regulates, in broad terms, the manner in which approximately 24 billion procurement dollars are spent annually.

4. The ever-increasing statutory and administrative pressures to utilize defense dollars for social and economic objectives having no relationship to military requirements.

5. The continued appropriation of most defense dollars to the Army, Navy, and Air Force, instead of to the Department of Defense—in spite of the rearrangement of the accounts, along functional lines, beginning in fiscal 1960.

THE 1958 DEFENSE REORGANIZATION ACT

As the chamber observed in its May 14, 1958, testimony on the 1958 Defense Reorganization Act, the only major deficiency in the reorganization legislation recommended by the President was the absence of specific proposals for dealing with the wasteful built-in triplication of such noncombat support activities as procurement and supply, and such common-type services as financial management, legal, intelligence, medical, hospital, transportation, recruiting and training.

Adoption of the so-called McCormack amendment—which authorized placing under one agency or department any activity or service common to more than one department—corrected that deficiency, removing any possible doubt as to the authority of the Secretary of Defense to integrate supply or service functions. Significantly, Defense Department spokesmen warmly endorsed the McCormack amendment during subsequent hearings. But there has been no direct utilization of this authority in the course of the Department's continuing efforts to get at some of the critical and costly organization and management problems described during the Reorganization Act hearings.

Within a matter of months after the act became law, the Secretary of Defense moved promptly to implement those provisions which provided for the establishment of truly unified or specified commands, removal of the departmental secretaries from the chain of command, and expansion of the Joint Chiefs of Staff. But except for appointment of the Director of Defense Research and Engineering, there has been no action to integrate or consolidate the organization or administration of defense procurement. Nor have any of the many services common to more than one department been placed under one agency or department, as the Defense-endorsed McCormack amendment authorized and encouraged.

The Procurement Subcommittee should also be aware of the fact that while we have one basic procurement statute, which will be discussed a bit later, and one basic set of implementing regulations (known as the ASPR), each of the military departments still maintains and operates its own procurement system and issues separate, voluminous, and sometimes conflicting implementing regulations. Within each department, there is still a multiplicity of procurement organizations. These, in turn, require a vast network of administrative offices, many of them in the same locations performing substantially the same or similar functions. These unnecessary overhead costs are reflected in the ever-increasing level of expenditures for personnel and operations and maintenance, rather than in the cost of major procurement.

Still another closely related problem, which the Secretary of Defense has more than ample authority to deal with under the Reorganization Act and other statutes, is the problem of dual staffing and excessive rotation of officers in and out of noncombat support-type assignments. Defense Department policy directives provide for 3- and 4-year tours of duty for officers given key procurement assignments. But a recent House Appropriation Committee survey disclosed that the normal tour is less than 2 years.

Defense directives also call for curtailing the assignment of military personnel to support-type jobs that can, and in most cases should, be performed by civilians. But this has not been done, and the top jobs in almost every support-type activity—where continuity is of great importance—are still reserved for military personnel. As recently as January 6, Vice Adm. Hyman Rickover told a nationwide television audience that this practice is the major reason why the Navy Department cannot obtain and retain competent civilian technicians in the Bureau of Ships.

COMMERCIAL-INDUSTRIAL TYPE ACTIVITIES

Members of the Procurement Subcommittee will recall that the second Hoover Commission, in its 1955 business enterprises report, estimated, on the basis of an admittedly incomplete survey, that the Department of Defense alone was operating 2,621 commercial-industrial-type activities, in 48 categories, employ-

ing approximately 600,000 military and civilian personnel and representing an initial capital investment of more than \$15 billion.

The Commission also said that at least 1,000 of these activities not only could but should be terminated without in any way adversely affecting our national security. On the contrary, it was felt their termination would reinforce the economic base upon which our real military strength is so dependent.

The Department of Defense, between November 17, 1952, when DOD Directive 4000.8 was issued, and December 31, 1957, made substantial progress in its so-called decompetition program—primarily because of constant DOD pressure on the military departments, and in spite of such congressional roadblocks as section 638 of the 1950 Defense Appropriation Act. During that period, there were 585 actual or scheduled closings or curtailments of such activities.

But the program lost much of its momentum during the 18-month period that followed. Between January 1, 1958, and July 1, 1959, there were only 102 actual or scheduled closings or curtailments, in spite of the fact that many categories of commercial-industrial activities had not—and still have not—been surveyed for the first time to determine whether they should be continued.

There may be some significance in the fact that the slowdown in the Pentagon decompetition program coincided with termination of the appointment of a Special Assistant to the Secretary of Defense, who had been responsible for policing implementation of the major Hoover Commission recommendations endorsed by the Department. It also coincided with the decision of the Assistant Secretary of Defense for Supply and Logistics to delegate to the military department secretaries his authority to make final decisions regarding the necessity of any particular commercial-industrial-type activity. In some cases, the latter action expedited the program, as was intended.

One of the barriers to more rapid Pentagon progress in this field is the requirement that the disposal or negotiated sale of certain categories of unnecessary commercial-industrial facilities be cleared with the House and Senate Armed Services Committees and/or the General Government Subcommittee of the House Government Operations Committee. The national chamber realizes that this requirement stems from the desire of Congress to be kept fully informed and was not intended as a roadblock. But it has become something of a roadblock. For example, it is responsible for the fact that the Defense Department, more than a year after determining that Government ownership of more than 100 telephone systems no longer is necessary, still has not been allowed to negotiate their sale.

THE ARMED SERVICES PROCUREMENT ACT

An understanding of the magnitude and complexity of our military procurement program is a prerequisite to any understanding of the imperative need for overhauling and modernizing the Armed Services Procurement Act, along the lines proposed in S. 500, introduced by Senator Saltonstall (Republican of Massachusetts). A brief description of this problem was made by Comdr. John M. Malloy SC, USN, in a July 13, 1959, statement to the Senate Armed Services Procurement Subcommittee. He said:

"The Department of Defense annual procurement program approximates \$24 billion. Our \$5 billion annual procurement transactions include a tremendous variety of supplies and equipment. . . . The majority of our contract dollars is used for the purchase of military weapons, such as aircraft, ships, tanks, missiles, ammunition, and electronic equipment. This wide range of purchased items—ranging, as it does, the gamut from simple items to tremendously complex items never before manufactured—presents a challenge of substantial proportions. We have accumulated a great deal of experience in coping with the complexities flowing from this program. This experience has proved to us time and time again that there is no one procurement method that can or should be exclusively used. This fact must be recognized and appropriately dealt with if we are to procure in a business-like manner so as to utilize our appropriations in the most effective manner."

At the time it was enacted, the Armed Services Procurement Act of 1947 was an excellent statute. And it was adequate until we began to concentrate on the procurement of fantastic space-age weapons and weapons systems. But we have reached the point where the law itself is contributing to unnecessary delays and costs that no longer can be tolerated or afforded.

The act has four principal weaknesses that need correcting.

First, it overstresses the use of formal advertised procurement, which is inappropriate for buying approximately 85 percent of the goods and services required by the Armed Forces.

Secondly, present procedures—which the act requires—frequently necessitate frustrating, time-consuming and costly delays in the solicitation and evaluation of bids, the negotiation of contractual terms, and the review and approval of contractual documents.

Third, the requirement of detailed specifications is impractical in many instances, impossible in others, and creates unnecessary delays.

Fourth, and most important of all, the law does not permit full utilization of our Nation's vast reservoir of industrial know-how and resourcefulness. On the contrary, in many respects it penalizes efficiency and ingenuity, restricts incentives to produce quality items at minimum cost, stifles the creative capacity of individual contractors, and overly restricts the delegation of authority and responsibility to contractors to make technical decisions.

The national chamber supports the enactment of S. 560, with certain amendments that were spelled out in July 31, 1959, testimony before a Senate Armed Service Procurement Subcommittee. We believe it would:

1. Correct most of the serious deficiencies noted above and would clarify many provisions of the act.
2. Help speed up the development and production of complex weapons. Not a great deal, perhaps, but certainly some.
3. Provide greater flexibility—that is, flexibility to adjust to whatever method of procurement may be necessary to obtain top-quality, lowest cost goods and services in sufficient quantities when and where needed.
4. Permit greater economy and efficiency in the organization and management of defense procurement.

Some critics of S. 560 have pointed out that most of the policies and procedures provided for in the bill are now being followed; that the bill, if enacted, really wouldn't change things much, so why bother with it.

The chamber believes the policies and procedures governing the expenditure of 24 billion procurement dollars annually should be pursuant to rather explicit up-to-date congressional guidelines, as set forth in the law of the land—rather than have them based, as they are now in large measure, upon administrative determinations by presidential appointees in top-level Defense Department positions, who are very competent but whose average tenure of office is less than 2 years.

Before leaving this subject, the chamber would like to comment briefly on several basic facts about military procurement that are widely misunderstood. These are as follows:

1. When the criteria essential for its use are present, formal advertising is the best procurement method to use, but these criteria are not present in the vast majority of current and foreseeable procurement transactions.

2. The use of negotiated procurement does not mean the absence of competition. On the contrary, most negotiated procurement is highly competitive.

3. Competition, insofar as formal advertising is concerned, means price only, but in the procurement of major weapons—most of which has to be on the basis of competitive negotiation—design, quality, performance, delivery date, etc., are equally important competitive factors.

4. Although the type of weapons we are buying and the method of procurement that they necessitate mean most prime contracts go to a relatively smaller number of companies, this does not mean, as has been charged, that those companies receive the same proportion of the dollars involved. For example, 70 percent of the dollars originally earmarked for expenditure on the F-108 and B-70 programs would have gone to companies other than North American Aviation, the prime contractor. In fiscal 1958, 53 cents of every defense contract dollar received by the General Electric Co. was passed along to 17,000 subcontractors and suppliers—90 percent of whom were classified as small businesses. During calendar 1958, total military procurement outlays were \$23.7 billion, of which small businesses received \$7.1 billion. Four billion of the latter figure was in prime contract awards; 3 billion in the form of subcontracts with 291 large primes.

DEFENSE DOLLARS FOR SOCIAL-ECONOMIC PURPOSES

The House Appropriations Committee report on the 1959 Defense Department budget included the following observation: "We should never lose sight of the fact that the sole basic purpose (of defense appropriations) is to provide for the military requirements of the Nation."

But studies conducted by the national chamber, following a highly critical September 1958 speech by former Deputy Assistant Defense Secretary (Supply and Logistics) Cecil Milne disclosed that there are now on the statute books 34 laws which establish a multitude of guidelines (some of them conflicting) and legal restrictions that every military contracting officer must abide by before he can award, or recommend the award, of each contract.

These include the 1930 Walsh-Healey and 1931 Davis-Bacon Acts, fair share for distressed areas, conserve critical materials, etc. In addition, there are many executive orders and regulations issued by other executive departments that impose such requirements as maximum geographic dispersion of contracts, non-discrimination in employment, and integration of current procurement with long-range industrial mobilization plans.

As the procurement task force of the second Hoover Commission observed, on an individual basis, a reasonably good case can be made for absorbing some such objectives into the military procurement process. But the accumulative result of the ever-increasing number of such requirements is to seriously hamper military buying and the management of contracts and further increase the cost of our defense program.

One of the best illustrations of this problem is the current action of the Department of Labor in seeking four Walsh-Healey Act minimum wage determinations for the major segments of the electronics industry, despite warnings by Electronic Industries Association President David Hull that any such action "would have a serious inflationary effect through the impact of higher defense program costs." Thirty-three percent of all major defense procurement is for electronics equipment or services.

Late last month the Labor Department reluctantly discarded plans to seek a new and broader Walsh-Healey minimum wage determination for the aircraft industry. The action had been initiated in response to demands by the two major unions in the aircraft industry, but the unions withdrew their request after the Aerospace Industries Association produced documented estimates that the proposal would add at least \$100 million annually to military aircraft procurement cost.

DEFENSE APPROPRIATION STRUCTURE

The fiscal 1960 budget, for the first time, included a single "Operations and maintenance" account for the Navy, broadened the definition of research and development, and regrouped all defense appropriations into functional or activity categories. These actions were in accord with 1958 and 1959 recommendations of the national chamber and were welcomed as steps in the right direction.

On the other hand, the revised appropriations structure was deficient in that there was no actual consolidation of funds within each functional category and most of the new spending authority requested by the President still was to be appropriated to the military services, instead of to the Department of Defense.

The budget was approved in the form in which it was submitted.

The chamber still takes the position that the present method of appropriating most defense funds—particularly research and development and procurement funds—to the military services is deficient in that it—

1. Is not realistically related to our defense objectives.
2. Overstresses the separateness of land, sea, and air concepts in a defense pattern which requires complete coordination of all three to meet tactical and strategic military goals.
3. Vests in the military chiefs of the three services major control—plus considerable economic and political power—over funds approximating one-half of the Federal budget.
4. Minimizes effective civilian control over the military.

The current appropriation system is also partly to blame for the continuing interservice rivalry (as distinguished from healthy competition) for domination of various weapons programs, and, more important, the money that goes with them. This stems from the fact that each service has been appropriated its own funds to accomplish objectives which it feels are most important, and these objectives have generally included each being able to fight a war itself. Thus we still have—in spite of the Defense Reorganization Act of 1958 and stronger top-level control over research and development, in the person of a Director of Defense Research and Engineering—races in each of the services to develop and introduce into their inventories weapons designed to accomplish substantially the same military objectives. This, in turn, brings about undesirable competi-

tion for scarce manpower to do such work, and results in unnecessary triplification in the procurement and supply fields and in general overhead activities.

RECOMMENDATIONS

While the national chamber does not profess to have a complete solution for each of these problem areas, we do have some recommendations and suggestions that we believe would help eliminate unnecessary duplication and waste, permit improved organization and management of our defense program, and minimize its unfavorable impact upon our total economy. We believe Congress should take the following specific actions:

1. Spell out, in unmistakable terms, its insistence that the Defense Department utilize the McCormack amendment to the 1958 Defense Reorganization Act, including the establishment of target dates for the development and submission of a plan of implementation, the achievement of initial objectives, and the submission of regular progress reports.

2. Direct the Department of Defense to expedite its lagging decompetition program; to inaugurate at once studies of the need for all categories of activities not previously reviewed, and to submit a comprehensive report, to the appropriate congressional committee of the actions taken or planned to close or curtail activities in each of the 48 categories identified in the 1955 Hoover Commission Report on Business Enterprises. At the same time, repeal the requirement that disposal actions, other than those involving activities specifically established by law, be cleared with Congress or any of its committees.

3. Overhaul and modernize the Armed Services Procurement Act of 1947, along the lines proposed in S. 500 but amended as recommended by the national chamber in its July 31, 1959, testimony.

4. Conduct a comprehensive review, and repeal or amend as may be necessary, the 34 statutes that require or recommend the use of vital but limited defense dollars to achieve social and economic objectives unrelated to military requirements. At the same time, direct the Defense Department to conduct a similar study of the corresponding Executive orders and departmental regulations, and to submit a report on the study to the appropriate congressional committee.

5. Recommend to the President the consolidation of appropriations in each of the functional categories of the 1961 budget for military functions, Department of Defense, and make all such appropriations to the Department of Defense, instead of to the Departments of the Army, Navy, and Air Force and to the Marine Corps.

The CHAIRMAN. The staff study entitled "Background Material on the Economic Aspects of Military Procurement and Supply" will be printed separately.

I also ask permission to put letters which we have received, in the record, and statistical materials.

Also, the analysis which has been prepared of the reports of the Comptroller General. I would suggest to the staff they be classified according to the type of abuse which has been disclosed.

I want to thank again Mr. Ward and Mr. Newman for their very efficient work.

(The material referred to follows:)

OCTOBER 2, 1959.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
Washington, D.C.

DEAR MR. CAMPBELL: I have been interested in the excellent reports which the General Accounting Office has issued the last year or so concerning military supply and service activities. As a matter of fact, I have been somewhat shocked by the revelations of your investigators.

Later this fall the Joint Committee on the Economic Report, of which I am the chairman, plans to take a broad look at the impact of the Government's supply and service programs upon the national economy. One of the facets of the investigation will involve the scope of military procurement, transportation, storage, disposal and other supply management activities. We also wish to

consider the way these things are being conducted. That is to say, by negotiations, etc. We will also be interested in the progress made and planned as to implementation of existing legislation, particularly the McCormack amendment of 1958 to the National Security Act.

I would very much appreciate it if you will analyze the various reports which have been made by the General Accounting Office during the last 2 years and summarize them as to what are the broad implications of your findings upon the economy.

I shall also appreciate it if you will suggest to the Joint Economic Committee any administrative or legislative changes deemed necessary to bring about improvement in the existing supply and service systems and procedures. The committee may wish you and your staff to testify on this subject in the latter part of the calendar year.

Mr. Ray Ward is working with our committee on this subject.

Sincerely yours,

PAUL H. DOUGLAS.

OCTOBER 2, 1959.

Hon. FRANKLIN FLOEKE,
Administrator, General Services Administration,
Washington, D.C.

DEAR MR. FLOEKE: As you perhaps know, the Joint Committee on the Economic Report held some hearings some time ago and touched upon certain phases of Government supply management particularly with respect to surplus property disposal.

Later this fall the Joint Committee on the Economic Report, of which I am the chairman, plans to take a broad look at the impact of the Government's supply and service programs upon the national economy. One of the facets of the investigation will involve the scope of the Government's procurement, transportation, storage, disposal and other supply management activities involving general administrative supplies. Another will deal with the Government's surplus and foreign excess property disposal activities and a third will deal with the procurement, storage, and disposition of stockpile materials. The committee will be interested in the way various materials are procured. That is to say, by negotiation, cost-plus contracts, open-end contracts, etc. We will be particularly interested in the progress that has been made and planned as to the implementation of the existing legislation particularly the McCormack amendment of 1958 to the National Security Act.

I shall very much appreciate it if you will keep these matters in mind, make a review of the facts pertaining to these programs and be in a position to testify before the committee in the latter part of the calendar year.

Mr. Ray Ward who will be on detail to the committee will be helping with this work.

Sincerely yours,

PAUL H. DOUGLAS.

OCTOBER 2, 1959.

Hon. MAURICE STANS,
Director, Bureau of the Budget, Washington, D.C.

DEAR MR. STANS: Later this fall the Joint Committee on the Economic Report, of which I am the chairman, plans to take a broad look at the impact of the Government's supply and service programs upon the national economy. One of the facets of the investigation will involve the scope of military procurement, transportation, storage, disposal and other supply management activities. We also wish to consider the way these things are being conducted. That is to say, by negotiation, etc. We will also be interested in the progress made and planned as to implementation of existing legislation particularly the McCormack amendment of 1958 to the National Security Act.

I hope that you and your staff may keep this matter in mind and be in a position to report to the committee possibly in November or December as to suggestions you may have at that time for administrative and legislative changes deemed necessary to bring about improvement in supply and service systems and procedures.

Mr. Ray Ward who will be on detail to the committee will be helping with this work.

Sincerely yours,

PAUL H. DOUGLAS.

NOVEMBER 23, 1959.

Hon. NEIL McHEE, *Secretary of Defense, the Pentagon, Washington, D.C.*

DEAR MR. SECRETARY: The Joint Economic Committee, of which I am chairman, is planning to take a broad look at the impact of the Government's supply and service programs upon the national economy. We hope to deal with the scope of the Government and Defense Department's procurement, transportation, storage, disposal, and other supply management activities. We are also interested in the procurement, storage, and disposition of stockpile materials. In addition, we are concerned with the various methods of procurement, i.e., cost-plus contracts, etc. Finally, we shall be particularly interested in the progress that has been made and planned as to the implementation of the existing legislation, particularly the McCormack amendment of 1958 to the National Security Act.

As you know, the funds involved in these activities run into the billions of dollars. We are concerned about them not from the strategic or tactical military aspects, which of course are outside our interest or jurisdiction, but we are concerned about the impact on our economy of these vast sums and the methods which are used to procure, store, assign, and dispose of them.

I shall very much appreciate it if you will keep these matters in mind and possibly be in a position to testify concerning them either late in December or at a time early in the new year.

With best wishes,

Faithfully,

PAUL H. DOUGLAS.

OCTOBER 2, 1959.

Mr. FRANK UPMAN, *Executive Secretary, Committee of Hoover Commission Task Force Members, Washington, D.C.*

DEAR MR. UPMAN: Later this fall the Joint Committee on the Economic Report, of which I am the chairman, plans to take a broad look at the impact of the Government's supply and service programs upon the national economy. One of the facets of the investigation will involve the scope of military procurement, transportation, storage, disposal, and other supply management activities. We will be very much interested in the progress made or plans underway to implement existing legislation and particularly the McCormack amendment of 1958 to the National Security Act which was endorsed by your group.

I shall appreciate it if you will bring this matter to the attention of the members of your group who contributed to the work of the Second Hoover Commission. It is hoped that your group may be able to make recommendations as to administrative or legislative changes to bring about improvements in existing supply and service systems and procedures.

It will also be helpful if one or more members of your group who are conversant with these matters will be prepared to testify later this calendar year.

Mr. Ray Ward who will be on detail to the committee will be helping with this work.

Sincerely yours,

PAUL H. DOUGLAS.

OCTOBER 2, 1959.

Mr. ERWIN D. CANHAM, *President, U.S. Chamber of Commerce, Washington, D.C.*

DEAR MR. CANHAM: Later this fall the Joint Committee on the Economic Report, of which I am the chairman, plans to take a broad look at the impact of the Government's supply and service programs upon the national economy. One of the most important facets of the investigation will involve military procurement, transportation, storage, surplus disposal, and other supply management activities. We will wish to consider the manner in which these activities are conducted. That is to say, by negotiation, competitive bids, cost-plus

contracts, etc. We will also be interested in the progress made and planned as to implementation of existing legislation particularly the McCormack amendment of 1958 to the National Security Act.

Since the chamber of commerce has taken an active interest in this subject matter and has from time to time made recommendations to the committees of Congress with respect thereto, I shall greatly appreciate it if you will review the matter and be in a position to suggest to the committee any administrative and legislative actions which you deem necessary and desirable to bring about improvements in the supply and service systems and procedures.

We may hold hearings later on this subject.

Mr. Ray Ward who will be on detail to the committee will be in charge of this work.

Sincerely yours,

PAUL H. DOUGLAS.

[Excerpts from certain General Accounting Office Reports during 1958 and 1959]

PROCUREMENT DEFICIENCIES

B-118778 February 14, 1958

Examination of Insurance on Government-Owned Facilities in Possession of Chance Vought Aircraft, Inc., Dallas, Tex.

The report pertains to the requirement of the Department of the Navy that the contractor carry property damage insurance on Government-owned facilities although the facilities are used almost exclusively in the performance of Government contracts and subcontracts. This requirement, which has been adopted pursuant to provisions of the armed services procurement regulation, results in unnecessary costs to the Government through absorption of insurance charges in prices, to the Government and is inconsistent with the Government's policy of self-insurance on its properties.

B-132989 February 28, 1958

Review of Requirements Determinations and Related Procurement for J-57 Aircraft Jet Engines in the Department of the Air Force.

Our review of the J-57 engine program disclosed four cases of management deficiencies involving substantial amounts. When these deficiencies were reported to the Air Force, corrective action was taken, thereby avoiding unnecessary expenditures of approximately \$16,430,000.

B-132970 March 10, 1958

Review of Procedures for Canceling Production of Excess Aircraft Jet Engines in the Department of the Air Force.

We found that substantial amounts were being spent unnecessarily for continued production of J-47, J-73, and J-65 engines that were no longer required. These failures to reduce production were caused by inadequate procedures and by reliance without sufficient review on information furnished by the contractors.

We reported our findings to responsible Air Force officials and recommended improvements in Air Force procedures. Additional cancellations of aircraft engine production were made, resulting in savings of more than \$62 million, as stated in the Comptroller General's annual report for 1955 and 1956. In addition, Air Force procedures were improved and revised regulations were issued in August 1957.

Our findings were reported to responsible Air Force officials and 37 additional J-65 engines that were still in production were canceled at a saving of about \$1,300,000.

B-125050 March 13, 1958

Need for Current Cost Data in Negotiations of Defense Contracts.

Our examinations have shown that the Government frequently was in an unnecessarily disadvantageous bargaining position in the negotiation of the original contract price and its subsequent repricing since it did not have knowledge of current cost data known to contractor officials at the time of negotiations.

In contract repricing negotiations, prolonged delays often occur between the redetermination cutoff point and the time of the actual negotiation of revised contract prices. These delays are usually attributable to the time needed by the contractor to assemble the necessary cost data and by the agency to audit and

review the contractor's proposal. During this interval production is usually continuing and additional cost experience is being gained by the contractor. Although this additional cost data is available to the contractor, it is not ordinarily available to the Government at the time of repricing negotiations.

B-132036 March 19, 1958

Report on Examination of the Negotiation of a Final Price Under Department of the Air Force Contract AF 33(600)-8743 with McDonnell Aircraft Corp., St. Louis, Mo.

The report pertains to the negotiation of contract price after completion of contract performance and shows that there is a need for measures which will reduce to a minimum the inclusion of estimates in the cost data used as a basis for price negotiations under such circumstances.

B-118762 March 20, 1958

Examination of Time and Materials Subcontracting by Chrysler Corp., Detroit, Mich., Under Department of the Army Contracts.

The report shows that unnecessary cost was incurred by the Government through the extensive use of time and materials subcontracts without adequate cost controls. The exigencies of the situation and unique nature of the items made the use of time and materials subcontracting necessary for initial procurements of parts required by Chrysler Corp. under its prime contracts with the Army Ordnance Corps. However, the prime contractor continued to award time and materials subcontracts for the procurement of additional quantities of the same parts although fixed-price subcontracting would apparently have been practicable and more economical. Comments furnished us by Chrysler Corp. and the Department of the Army show that action has been taken to restrict the use of time and materials subcontracting and strengthen controls over costs incurred under this type of contracting.

Since the time and materials form of contracting is used by the Departments of the Air Force and Navy as well as by the Department of the Army, we are recommending to the Secretary of Defense that this case be brought to the attention of appropriate officials of those Departments for their consideration and review of the adequacy of their agencies' controls over time and materials contracting and subcontracting.

B-133007 May 26, 1958

Report on Examination of the Pricing of Negotiated Contracts Totalling \$118,700,000 awarded to Cleveland Diesel Engine Division, General Motors Corp., Cleveland, Ohio, by the Bureau of Ships, Department of the Navy.

The report presents our findings that (1) excessive contract prices were negotiated because contracting officials did not give adequate consideration to the contractor's cost experience, (2) the contractor was allowed the same rate of profit on subcontracted major components as on items to be manufactured in his own plant, and (3) excessive allowance was made for overhead in spare-parts prices. Comments received from the Department of the Navy and the contractor on our findings are recognized in the report.

Summary of findings: We brought our findings to the attention of the Department of the Navy and General Motors Corp. and their comments have been recognized in the report. On November 22, 1957, the contractor offered a refund of \$690,000 to the Navy in recognition of the fact that profits on the followon contracts exceeded those anticipated. As at May 8, 1958, the refund had not been received but appropriate contract amendments were being prepared.

B-132042 June 5, 1958

Examination of Subcontracts Awarded to Lambert Engineering Co., St. Louis, Mo., by Various Air Force and Navy Prime Contractors.

Prices proposed by the subcontractor were generally accepted by the prime contractors without price or cost analysis or comparison with the subcontractor's cost experience even though there was no competition because Lambert was the sole source of supply. As a result, inadequate recognition was given in the sub-contract prices to declining costs as production experience was gained and, therefore, close pricing was not achieved.

The Air Force has taken action on two of our recommendations aimed at improving the pricing of subcontracts but did not concur with two other recommendations. The Navy furnished us with no evidence of any specific action hav-

ing been taken to prevent a recurrence of the undesirable subcontracting practices disclosed by our examination. We believe, therefore, that further consideration should be given to the need for additional measures to insure that fair and reasonable subcontract prices are obtained. The report includes our recommendations in this matter.

B-118702 July 23, 1958

Examination of Department of the Army Contracts and Subcontracts with Birdsboro Armorcast, Inc., Birdsboro, Pa.

SUMMARY REPORT ON EXAMINATION OF DEPARTMENT OF THE ARMY CONTRACTS AND SUBCONTRACTS

This summary report is furnished to inform you of the following administrative weaknesses which were disclosed by our examination:

1. Additional cost to the Government resulted from (a) allowing profit to the subcontractor and prime contractor on rent paid for the use of Government-owned facilities, (b) requiring the contractor to provide insurance on Government-owned facilities, and (c) not adjusting profit allowances for a reduction in the scope of the work actually performed.

2. The contractor's fee under a cost-plus-a-fixed-fee contract included charges for indirect costs, making it difficult to determine whether regulations limiting such fees were complied with.

3. The contractor used Government-owned facilities for commercial operations for 2 years without formal contractual agreement and without paying rent to the Government.

B-118787 August 20, 1958

Examination of Subcontracts Awarded to Goodyear Aircraft Corp., Arizona Division, Litchfield Park, Ariz., under Department of the Air Force Prime Contracts.

The report presents our finding that unreasonably high subcontract prices were negotiated because the latest available cost information was not utilized in establishing the prices. A price reduction applicable to these subcontracts has subsequently been negotiated and the Air Force has taken action to assure that current actual cost data are given consideration in negotiating prices of prime contracts and subcontracts.

After we brought to the attention of the parties the excessive price established for canopy assemblies, a price reduction of \$104,020 was negotiated.

B-133056 October 14, 1958

Examination of Subcontracts with the Firestone Tire & Rubber Co., Los Angeles, Calif., for Aircraft Fuel Cells.

The report discloses that neither the prime contractors nor the Department of the Air Force have required the subcontractor to furnish evidence of the reasonableness of proposed prices for aircraft fuel cells, and as a result the prime contractors have not had sufficient information to use as a basis for negotiating fair and reasonable prices. For the 3 fiscal years ended October 31, 1956, Firestone earned a profit of about \$3 million, 35 percent of cost, on these fuel cells.

B-133118 November 26, 1958

Review of Selected Activities of the Aviation Segment of the Navy Supply System.

Our review of the aviation segment of the Navy supply system disclosed that, because of serious deficiencies in several critical areas, the system does not adequately meet aircraft spare parts requirements of the fleet and results in the accumulation of substantial quantities of excess material. For example, in September 1958, an average of 8 percent of the Navy's operational aircraft were reported grounded for lack of parts; however, for certain first-line aircraft, this rate was much higher. Conversely, during fiscal years 1955-58, excess material valued at approximately \$823 million was declared excess for disposal purposes. The Navy estimates that an additional \$274 million worth of aeronautical material will be declared excess in the near future.

Although it has not been possible to identify all the direct causes, we found a need for (1) improvement of accuracy of requirement computations, (2) improvement in the accuracy of field reporting of quantities and conditions of assets on hand, (3) reevaluation of certain aspects of program-life procurement

polices, (4) closer coordination of military services in supply activities, and (5) simplification of the appropriation structure.

B-132045 December 3, 1958

Examination of Department of the Army Contract DAI-28-017-501-ORD(P)-1467 With A. O. Smith Corp., Milwaukee, Wis.

The report discloses that agency officials negotiated prices without verifying cost data which the contractor furnished in support of the proposed prices. Consequently, these officials were not aware that the contractor had adjusted experienced cost data upward to correct estimated discrepancies and they accepted the proposed prices, which were excessive. As a result of our bringing this finding to the attention of the contracting agency, the contractor has refunded \$120,775 to the Army and we have been advised that our findings would be brought to the attention of all Ordnance Corps installations concerned with procurement.

B-133103 December 8, 1958

Examination of the Pricing of Department of the Air Force Negotiated Contracts and Subcontracts With Avtron Manufacturing, Inc., Cleveland, Ohio.

The report discloses that unnecessary costs were incurred by the Government because firm fixed-price contracts and subcontracts were awarded without competition being obtained and before sufficient cost experience was available. After we brought our findings to the attention of the contractor, Avtron refunded \$52,000 to the Air Force.

B-133021 December 8, 1958

Examination of the Pricing of Department of the Air Force Contract AF 33(690)-29507 With General Motors Corp., A.C. Spark Plug Division, Milwaukee, Wis.

The report discloses that unreasonably high prices were negotiated because the Air Force awarded the contract on a fixed-price basis without requiring the contractor to furnish detailed support for the estimated costs included in the prices proposed by the contractor. The estimated costs were not a reasonable basis for contract pricing because they did not reflect cost reductions which might be expected to result from purchases in larger quantities. Further, additional quantities were ordered under the contract at prices which did not give effect to lower, more current, costs of materials.

After we brought our findings to the attention of the Air Force and the contractor, the latter made a refund of \$750,000 applicable to this contract and the Air Force issued a directive to contracting officials designed to strengthen procedures relating to the use of cost data in the negotiation of contract prices.

B-133121 December 23, 1958

Review of Requirements, Determinations, and Related Procurement for Ground Communication-Electronic Equipment, Rome Air Force Depot, Department of the Air Force.

The Air Force did not have effective program control of ground communication-electronic equipment or the capability of computing current and valid requirements, under the methods of computing requirements in operation at the time of our review, and the supply system did not have the capability to promptly identify and cancel excess equipment on order.

During our review we reported to the Air Force a number of excesses on contract that had not been canceled. The Air Force subsequently terminated orders for equipment with a total contract price of approximately \$1,400,000. A much larger reduction of excesses would have been possible, however, if the Air Force had acted when the reduced requirements were originally recorded.

B-132936 January 20, 1959

Examination of Department of the Navy Contract NOas 53-204 and Lease Agreement NOy(R)-60218 Negotiated with McDonnell Aircraft Corp., St. Louis, Mo.

In establishing a firm price for airplanes to be produced under contract NOas 53-204, Navy contracting officials utilized, without adequate evaluation or verification, cost data which included duplicate costs and costs not applicable to the airplanes. The contractor incurred costs of about \$6 million less than the amount contemplated, of which \$2,596,000 could have been recognized by

Navy contracting officials by an adequate review of cost data available at the time the price was established. As the result of our bringing our findings to the attention of the agency, the contractor offered to reduce the price by \$1 million. As of December 1, 1958, the Navy had not accepted this offer.

We found also that the contractor's claim for termination inventory was overstated, that rent and insurance on Government owned facilities caused unnecessary cost to the Government, and that the contractor's inventory records were not reliable. The Navy has informed us that the Navy auditor would review the final termination settlement proposal and make appropriate recommendations, that consideration is being given to revising the rental and insurance aspects of the facilities lease, and that the contractor's inventory accounting procedures are being improved.

R-133126 January 23, 1959

Review of Army Signal Corps Supply Operations, U.S. Army, Europe Communications Zone, Orleans, France.

The value of the inventory controlled by the Signal Supply Control Agency at December 31, 1957, was \$108 million. Of this amount, \$42 million worth of stock was in excess of normal operating requirements and approved reserves. The generation of excesses was caused by many factors. In addition to obsolescence changes in military requirements, and new logistical concepts, many of the deficiencies disclosed in our review contributed significantly to this condition.

Our review disclosed that Signal Corps practices, procedures, and controls were inadequate to assure proper supply determinations, and this has resulted in uneconomical supply operations. The major deficiencies were that the supply records were inaccurate and unreliable, orders had been placed for supplies from the United States which were not needed in Europe, stocks were reserved unnecessarily, and stock levels were excessive. A summary of the report is found on pages 4 to 8.

R-125037 June 30, 1959

Review of Supply Management and Production Control Activities at Selected U.S. Naval Shipyards, Bureau of Ships, Department of Navy.

We found that the shipyards have consistently overestimated their needs for material for ship overhaul and conversion work. As a result, enormous quantities of surplus materials have been accumulated which, experience shows, will be ultimately disposed of at a fraction of its cost. During the fiscal years 1950, 1957, and 1958, a sizable amount of Navy inventories have been classified as excess to its needs. This included nearly \$850 million worth of those materials used almost exclusively for shipwork: i.e., electronic and shipboard equipment and ship repair parts.

We found also (1) that retention of inactive items increased shipyard storage, accounting, and administrative costs and delays in making this excess stock available to other potential users, (2) that about 40 percent of material carried in shop stores for day-to-day use was in excess of established supply levels and that a substantial amount of the stock held as insurance items did not meet the criteria established for stocking such items, and (3) that little or no accounting control exists over the more than \$40 million in surplus materials at the four shipyards we reviewed.

R-133151 February 4, 1959

Review of Aircraft Engine Overhaul Pipeline in the Department of the Navy.

This report discloses that the Department of the Navy, by reason of applying a very liberal allowance for out-of-service time for aircraft engines, is investing very substantial sums of money in the procurement of aircraft engines that are excess to its needs.

Our review of physical movement of engines and comparison with performance by the Department of the Air Force on similar engines suggests that a reasonable pipeline would be approximately 150 days as contrasted with the scheduled 210 days used for computing requirements and with the current performance record of 275 days. On this basis, we estimated that at July 31, 1958, 793 aircraft engines costing about \$68 million are being procured in excess of the Navy's requirements. In addition, at that date, the Navy had planned requirements for 204 more of these engines estimated to cost about \$33 million. This computation is based solely on the difference in overhaul pipeline time and does not

include any reductions which may be obtainable by more realism in other factors in the requirements determinations.

B-133044 Feb. 20, 1959

Examination of the Pricing of Landing Gears Purchased From Menasco Manufacturing Co., Burbank, Calif., by Department of the Air Force Prime Contractors.

The report discloses that prime contractors accepted prices quoted by Menasco without requiring the subcontractor to submit cost information in support of the prices proposed, and as a result proper evaluation of the prices could not be made. The Air Force has taken action to correct this unsatisfactory situation.

B-133113 March 12, 1959

Examination of Department of the Air Force Contract AF 33(600)-31100 With Avco Manufacturing Corp., Crosby Division, Cincinnati, Ohio.

An excessive price was negotiated for this contract because the Air Force accepted more than \$1 million of recorded costs which the contractor included in error in its pricing proposal. As a result of our bringing this matter to the attention of the Air Force and the contractor, the contractor has refunded \$1,133,510 to the Air Force. In addition, steps have been taken by the Air Force and the contractor to prevent in the future pricing errors of the type, which resulted in negotiating an excessive price for contract AF 33(600)-31100.

B-133131 March 17, 1959

Examination of the Pricing of Department of the Navy Negotiated Contracts and Subcontracts With Librascope, Inc., Glendale, Calif., for Model MX-1295 Periscopes.

The report presents our finding that firm fixed prices and an incentive target price were negotiated before adequate cost and production experience was available to enable the estimating of future costs of production with reasonable accuracy. Consequently, the firm fixed prices and, to a lesser degree, the final price of the incentive-type contract were unreasonably high.

The report also includes our finding that expenses of \$12,675 incurred by the contractor in connection with the exhibition of a commercial product were erroneously charged to Government work. The Navy Area Audit Office informed us that corrective adjustment would be made.

B-133145 March 20, 1959

Examination of Prices Negotiated Under Certain Department of the Air Force Contracts With Erdlen, Inc., San Leandro, Calif.

The report disclosed that excessive contract prices were negotiated because agency officials did not give adequate consideration to the contractor's previous cost experience. As a result of our review, the price of one contract was reduced \$128,005 and a second contract was awarded on a price-redeterminable basis. In subsequent price-redetermination negotiations the price of the latter contract was reduced about \$146,200. We believe, however, that further savings might have been realized if agency contracting officials had given adequate consideration to available cost data and had exercised their option to request a second price redetermination.

B-133065 April 20, 1959

Limited Review of Selected Offshore Procurement Contracts Awarded and Administered by the Directorate of Procurement and Production, Air Materiel Force, European Area, in Fiscal Years 1954, 1955, and 1956.

Our review disclosed a failure by the Air Force to adjust the amount of a contract for aircraft engines in accordance with the value of the engines delivered by the contractor, resulting in an excess payment of \$874,000. As a result of our review, the Air Force obtained additional engines needed in Europe in the amount of the excess payment without additional expenditure.

Our review disclosed also that rework of aircraft canopies produced overseas was necessary at a cost of \$71,000 because they were not interchangeable with canopies produced in the United States. We were informed by the Assistant Secretary of the Air Force (Materiel) on December 30, 1958, that necessary action was being taken to recover these rework costs.

B-132003 April 17, 1950

Examination of the Pricing of Certain Department of the Navy Contracts With the Air Arm Division, Westinghouse Electric Corp., Baltimore, Md.

Excessive costs were borne by the Government because the Navy negotiated a contract price based on estimated costs, when actual costs, which were \$933,163 lower than the estimates, had already been incurred. Further, the contractor received excessive reimbursement for royalty costs. We have been informed that the contractor and the Department of the Navy have established procedures to avoid recurrence of delays in negotiating final contract prices and, further, that action has been taken to prevent excessive reimbursement for royalty costs in future negotiations.

B-132005 April 21, 1950

Examination of the Administration of Major Subcontracts Under Department of the Navy Negotiated Contracts NOa(s) 50 710 f With Philco Corp., Philadelphia, Pa.

The report presents our findings that (1) deficiencies in administering two subcontracts caused prolonged delays in refunding to the Government about \$1,400,000 and (2) failure to exclude improper costs in redetermining a subcontract price resulted in excessive cost to the Government of about \$20,200. We are recommending to the Secretary of Defense that Department of Defense Directive 4105.7 which limits the aggregate total payments to prime contractors on price revision type and incentive-type contracts be amended so that it will also apply to similar types of subcontracts. We are recommending to the Secretary of the Navy that the agency emphasize to contracting officials the need for a closer review of subcontract negotiations.

B-118698 May 6, 1950

Examination of the Estimated Costs for Subcontracted Airframe Components Used in Negotiating Incentive Target Prices Under Department of the Air Force Fixed-Price Incentive Contracts AF 33(600) 28437 and AF 33(600)-30684 With Lockheed Aircraft Corp., Georgia Division, Marietta, Ga.

The report shows that the negotiated target prices included amounts for subcontracted items which were \$4,110,000 in excess of amounts that the contractor knew would be incurred for those items. Of this amount, \$2,844,000 was known to the contractor prior to submission of its proposal although the proposal stated that estimated costs of subcontracted items were based on the most current information available. The remainder of \$1,266,000 became known to the contractor prior to completion of negotiations. The lower cost information was not furnished by the contractor in negotiations nor disclosed by Air Force review. Consequently, unless appropriate adjustments are made, the contractor will receive incentive participations and target profits of about \$1,251,000 because of excessive target estimates rather than contractor efficiencies.

B-118729 May 13, 1950

Examination of Prices Negotiated for Vertical Stabilizer Tips for Model F-100 Aircraft by Rheem Manufacturing Co., Downey, Calif., a Subcontractor, Under Department of the Air Force Price Contracts With North American Aviation, Inc., Los Angeles, Calif.

The report shows that the prices quoted to Rheem on follow-on orders for vertical stabilizer tips by its supplier were unreasonably high in relation to the costs which the supplier had experienced in producing similar items prior to the time of negotiations. Rheem accepted the prices without obtaining cost information from its supplier in support of the prices quoted, and neither North American nor the Air Force required Rheem to obtain such data for use in negotiating prices. As a result, the ultimate cost to the Government was excessive by about \$178,000.

B-133122 May 14, 1950

Examination of Boeing Airplane Co. Purchase Orders E-10008 and E-10015 Awarded to the Cessna Aircraft Co., Wichita, Kans., Under Department of the Air Force Negotiated Prime Contract AF 33(600)-26235.

Boeing awarded firm fixed-price purchase orders to Cessna for B-42 stabilizer assemblies and related tooling, although Cessna had not previously produced such assemblies and was not in a position to prepare realistic cost estimates for use as a basis for pricing. The prices negotiated for the stabilizers and tooling,

which totaled \$0,321,970, proved to be about 37 percent greater than the costs of \$4,021,320 actually incurred by Cessna in performing the subcontracts. We are recommending to the Secretary of the Air Force that the agency's control over a contractor's purchasing system include participation in, or close surveillance over, major subcontract negotiations in order to assure that appropriate types of subcontracts are used and that fair and reasonable prices are negotiated. Further, we are recommending that this case be utilized by the Air Force to emphasize to agency contracting personnel the need for continued vigilance in their surveillance over prime contractors' subcontract pricing and administration.

Also, in its proposals for target prices for the prime contract, Boeing included estimated subcontract costs of about \$243,000 for certain items of tooling which Boeing should have known at the time would not be required.

B 133108 May 15, 1959

Review of the use of Contractor-Furnished Drawings for Procurement Purposes in the Air Materiel Command, Department of the Air Force.

We found that the Air Force has been unable to realize the maximum benefits of competition in many procurements of military items, components, and spare parts because of (1) inadequate provision in prior contracts for use by the Government of contractor-furnished drawings acquired at Government expense, (2) unnecessarily restricted interpretations by AMC of prior contracts where use is not expressly restricted, and (3) inadequate controls and procedures regarding the receipt and use of such drawings. In our review we considered those factors which limited procuring activities from obtaining full use of drawings as a basis for initiating procurement actions on a competitive basis. We did not attempt to determine whether the procurements actually made were more costly because of the lack of competition.

B 118715 May 19, 1959

Examination of the Procurement of Spare Parts From Boeing Airplane Co., Seattle, Wash., Under Department of the Air Force Contracts AF 33(600)-22110 and AF33(600)-28223.

The report discloses that proposed target prices, for certain spare parts for B-52 airplanes, submitted by Boeing and accepted by the Air Force for these fixed-price incentive contracts, contained estimated subcontract costs which were higher than prices established by Boeing with its subcontractors before the target prices were submitted. Boeing did not disclose to the Air Force and the Air Force did not obtain and consider the information on the lower subcontract prices which was known to the contractor at the time the price proposals were submitted. As a result of using higher estimated subcontract costs, target costs for these spare parts were excessive by about \$5,022,465. This amount was reduced to \$4,326,900 after giving effect to adjustments of \$695,565, with consequent savings to the Government of \$187,295, made by Boeing subsequent to our inquiries. Unless further adjustment of the target prices is made, the Government will incur excessive costs which we estimate will amount to about \$1,211,530.

B 132936 May 21, 1959

Examination of the Incentive Target Price for Department of the Air Force Contract AF 33(600)-23393 With McDonnell Aircraft Corp., St. Louis, Mo.

The report discloses that cost estimates, submitted by McDonnell and used in negotiating the target price for contract AF 33(600)-23393, contained estimated subcontract costs for certain purchased equipment which were higher than maximum prices that had been established by McDonnell with its subcontractors before the target-price negotiations. McDonnell's proposal was based on subcontract prices in effect at the time the proposal was submitted, based on purchase orders under the preceding contract. However, prior to the time of the negotiations, McDonnell had awarded purchase orders to its suppliers at lower prices for items to be used for performance under contract 23393. The Air Force did not obtain and consider the information on the lower subcontract prices at the time of negotiations. As a result of using higher estimated costs in negotiations, the target costs were excessive by about \$5,193,000 and the Government will incur excessive costs of about \$1,506,000 unless the contract price is adjusted.

B 133177 May 22, 1950

Review of Procurement Practices Covering the Award and Administration of Advertised Contracts by the Military Clothing and Textile Supply Agency, U.S. Army Quartermaster Corps, Philadelphia, Pa.

We found that considerable progress had been made in improving controls, although we identified several areas requiring further improvement. The deficiencies existing at the time of our review in these areas did not, in our opinion, significantly impair the overall effectiveness of the Agency's performance in the award and administration of advertised contracts. Much of the progress made resulted from actions taken to implement the recommendations of the Military Operations Subcommittee.

While this report does not contain any recommendations to the Congress, we believe that it will be of interest to the Congress particularly the matter relating to the award of contracts to small business firms which have resulted, in many instances, in small business firms taking unfair advantage of other small business firms under contracts set aside in part for small business. Our finding is summarized on page 6 of the report.

B 133146 May 20, 1950

Examination of the Negotiation of Target Prices Under Department of the Air Force Contracts With General Precision Laboratory, Inc., Pleasantville, N.Y., for Certain Radar Systems.

The report presents our finding that the target prices negotiated for two incentive-type contracts include overestimates of about \$500,700 not recognized at the time of negotiations because of inadequate reviews by agency officials of the contractor's estimated costs. These overestimates will, under the incentive provisions of the contract, result in additional costs to the Government of about \$150,200 unless an adjustment is made.

B 132942 May 20, 1950

Examination of the Pricing of Selected Prime Contracts Negotiated by the Department of the Air Force and Subcontracts Negotiated by Air Force Prime Contractors.

The report presents in summary form the findings included in 14 individual reports submitted to you during the past year. These reports showed that in a number of instances fair and reasonable prices were not negotiated. In certain of these cases estimated costs used in pricing were excessive by about \$17 million which unless adjusted would result in excess costs to the Government of about \$6,340,000. In addition, in other cases where prices were negotiated without adequate consideration of available information, selling prices of about \$58,700,000 exceeded costs by about \$13,500,000, or about 30 percent. We believe that a significant portion of this difference resulted from procurement deficiencies as set forth in our reports.

In most of the cases the negotiation of unreasonably high prices may be attributed to deficiencies in (1) control by the Air Force over the pricing of prime contracts and (2) control by the Air Force and by its prime contractors over the pricing of subcontracts. The basic weakness noted in the controls was the failure to give sufficient consideration, in establishing prices, to cost data available at the time prices were negotiated.

B-133170 June 8, 1950

Review of Ship Overhaul Contracting Activities Administered by Industrial Managers, Bureau of Ships, Department of the Navy.

Our review disclosed that a lack of effective price evaluation procedures permitted award of contracts at unnecessarily high prices. Our review further disclosed that laxity of controls over supplemental work increased ship overhaul costs. In this respect, we found that additional repair work authorized after the award of the contracts totaled about \$16 million annually and that generally the prices negotiated for additional work were between 115 and 170 percent of competitive prices for such work. We found also that (1) failure to use split-bidding techniques unnecessarily restricted competition for ship overhaul work, (2) inequitable pricing of Government-furnished materials allowed contractors unwarranted benefits, and (3) a lack of coordination between inspection and contracting functions permitted overpayments to contractors.

B 133174 July 13, 1959

Examination of the Pricing of Spare Parts Under Department of the Navy Contract NOs 58 65r With Aircraft Radio Corp., Boonton, N.J.

The report discloses that, in negotiating amendments for spare parts to an existing contract, the Navy and the contractor did not give consideration to reduced costs which could be reasonably expected to result from combining the production of spare parts with production under another contract awarded 2 months earlier. In the production of the spare parts, the contractor took advantage of large-volume production, but the savings realized therefrom were not passed on to the Government. On the basis of our examination which was limited to about 30 percent of the amount included in the contract prices for spare parts, we estimate that unnecessary costs to the Government amounted to about \$75,000.

B 118778 July 13, 1959

Examination of the Pricing of Department of the Navy Contracts NOs 54 319-4 and NOs 51 04B-1 With Chance Vought, Inc., Dallas, Tex.

The target price negotiated for contract NOs 54 319-4 included certain labor and rented overhead costs which were excessive by about \$1,200,000, and under the incentive provisions of the contract these excessive costs resulted in additional cost to the Government of about \$174,000. Current cost data for the contract, available at the time the target price was negotiated, indicated that the estimate included in the contractor's price proposal and used in target pricing would be underrun by about 241,000 labor-hours, or about 9.5 percent of the total labor-hours accepted in the target price established.

The contractor's estimated costs for labor, including this provision for contingent costs, were used in negotiating the target costs, and the contractor did not disclose, and the Navy negotiators did not obtain and evaluate, the above cost data. Although we called this matter to the attention of the Navy prior to execution of the amendment establishing the final price for the contract, the Navy did not take action to recover the excessive cost from Chance Vought.

B 133210 July 13, 1959

Examination of the Pricing of Department of the Navy Contract NOs 68074 With the Electric Products Co., Cleveland, Ohio.

The report discloses that the Navy accepted, without substantial change, the contractor's proposed price and awarded the contracts on a firm fixed-price basis, although firm drawings and specifications, effective competition, and prior cost experience were not available for proper evaluation of the proposal. The costs subsequently incurred by the contractor in performing the contract were substantially lower than the estimated costs upon which the price was based.

B 132912 July 14, 1959

Examination of Selected Prime Contracts Negotiated by the Department of the Navy and Subcontracts Negotiated by Navy Prime Contractors.

The report presents in summary form the findings included in 12 individual reports submitted to you since May 1958 and the findings in two special reports submitted since May 1958 and the findings in two special reports submitted to the Committees on Armed Services, Government Operations, and Appropriations of the Senate and the House.

The Navy accepted, without adequate evaluation or verification, prices which were based on cost estimates that were excessive by about \$12.2 million in relation to actual costs which had been incurred. In other instances, excessive prices were established due to the use of firm fixed-price and incentive-price contracts where there was no competition and before adequate cost and production experience was available. In addition, our examinations disclosed (1) that there were deficiencies in the rental of Government-owned facilities which resulted in loss of revenue or unnecessary costs to the Government totaling about \$478,000 and (2) that a prime contractor and two of its subcontractors were allowed interest-free use of substantial amounts of Government funds for an extended period.

Unreasonably high prices and other unnecessary costs to the Government in most of these instances, may be attributed to inadequate evaluation by the Navy of prices proposed by contractor and ineffective negotiation and administration of contracts.

B-118605 August 18, 1959

Examination of the Pricing of Department of the Air Force Contract AF 33(600)-31174 With Convair, a Division of General Dynamics Corp., San Diego, Calif.

The report shows that the contractor's proposal for the negotiation of the target price for contract AF 33(600)-31174 included amounts for the estimated costs of materials, purchased parts, and subcontracted items which were about \$12,149,000 in excess of costs which were known to the contractor or which the contractor could reasonably have expected to incur. Since the amounts proposed by the contractor for these items were accepted by the Air Force, except for a negotiated reduction in estimated costs for shop losses and price increases of subcontracted items, the contract target cost was excessive and the Government will incur excessive costs of \$3,402,000 unless the contract price is adjusted.

We believe that more careful review of the contractor's proposals and supporting documentation would have disclosed to the Air Force the contractor's cost overestimates.

B-125016 September 16, 1958

Examination of Department of the Navy Negotiated Contracts With Collins Radio Co., Cedar Rapids, Iowa, for AN/ARC-27 Airborne Radio Equipment.

Our examination disclosed that the target cost negotiated for an incentive-type contract included an unjustifiably high estimate of the cost of a major subcontracted component. Our findings and observations on this and other matters were submitted to the Navy Bureau of Aeronautics prior to the negotiation of final prices on the contracts and were given consideration in the negotiations. As a result, the major portion of the profit attributable to the overstatement of target cost was eliminated from the final price.

We also noted that Navy contracting officials did not make an independent review and verification of the contractor's statements of estimated costs but relied upon the contractor's cost representations in conducting their price analyses.

B-133189 September 30, 1959

Examination of the Pricing of Certain Department of the Air Force Subcontracts Awarded to Telecomputing Corp., Whittaker Controls Division, Los Angeles, Calif., by General Motors Corp., Allison Division, Indianapolis, Ind.

The report discloses that unreasonably high prices were accepted for valves for J-71 jet engines because Telecomputing was not required by Allison or the Air Force to furnish cost information in support of prices quoted even though effective competition was lacking.

B-1187729 September 28, 1959

Examination of the Pricing of Department of the Air Force Contract AF 41(608)-8175 With Rheem Manufacturing Co., Aircraft Division, Downey, Calif.

The price proposed by the contractor, which was accepted by the Air Force without substantial change, included overestimated costs of tooling and production. These overestimates, together with related overhead and profit allowances, totaled about \$240,000. The contractor advised us that, upon determination that the profits realized from contract AF41(608)-8175 were higher than anticipated. Rheem voluntarily adjusted its profits by offering a much lower price for the succeeding procurement of practice bombs, which were obtained on an advertised bid basis. While this adjustment appears to substantially offset the overestimates disclosed by our examination, this type of adjustment gives a contractor who held a high-profit contract an unfair competitive advantage over other bidders for follow-on contracts.

We believe that, with the information which was available at the time of negotiations, the contractor should have been able to submit a more accurate estimate of projected costs.

B-133021 October 14, 1950

Examination of the Pricing of Department of the Air Force Negotiated Fixed-Price Contract AF 09(603)-32259 With General Motors Corp., A. C. Spark Plug Division, Milwaukee, Wis.

The report presents our finding that the contract price was negotiated on the basis that almost 100 percent of the work would be subcontracted. The contractor subsequently decided to perform the work in its own plant, and this was accomplished at substantially lower cost than the estimates upon which the contract price was established. We brought this matter to the attention of the contractor, who subsequently offered to refund \$105,872 to the Air Force.

B-133133 November 25, 1950

Examination of the Pricing of Department of the Air Force Fixed-Price Contracts AF 30(635)-3494 and AF 30(635)-3666 With Northern Radio Co., Inc., New York, N.Y., the Sole Source for Certain Components of a Teletype Communication System.

The report shows that price proposals submitted by Northern Radio, and used in negotiating prices of contracts AF 3494 and AF 3666, included estimates for labor costs of \$428,900 which were about \$223,000 in excess of costs incurred by Northern Radio under preceding Air Force contracts for the same items. The Air Force accepted the labor cost estimates proposed by Northern Radio as fair and reasonable without making a critical review and comparison of those estimates with prior cost experience. Consequently, when the contractor's overhead and profit allowances related to the excess labor cost estimates are considered, the prices to the Government under the two contracts were excessive by about \$543,000.

SUPPLY MANAGEMENT DEFICIENCIES

B-125097 January 13, 1958

Examination of the Military Assistance Program Administered by the Department of the Army.

At present, approved military assistance programs do not provide a basis for effective supply planning within the Army. Individual country programs and aggregate military assistance programs have not been ready for implementation until long after appropriations are made available and, even when approved for implementation, have not provided a sound basis for procurement and supply action. The programs are subject to constant and significant change. As a result, the technical services find it difficult to integrate military assistance requirements with their own needs in initiating overall procurement or other supply action. We believe that adoption of the recommendations contained in our overall report on the military assistance program with respect to the development of long-range program plans and better programing, together with the actions being taken by the Office of the Assistant Secretary of Defense for International Security Affairs to speed up the programing process, will assist in solving this problem.

The present accounting and reporting procedures do not provide adequate management control over the supply and delivery of military assistance equipment. Our review disclosed conflicting and duplicate recordkeeping and conflicting reporting, lags in reporting deliveries to the military assistance program, inadequate control of documents supporting shipment to military assistance recipients, retroactive program amendments approving unauthorized supply actions, duplications in recorded deliveries, and errors in billing the military assistance program. The result has been considerable confusion as to the status of authorized programs and their implementation. We are recommending that consideration be given to placing accounting and reporting responsibilities at the oversea supply agencies, which would report shipments on the basis of which the military assistance program would be billed for reimbursement to Army appropriations.

B-118763 January 31, 1958

Examination of the Spanish Base Construction Program of the Departments of the Air Force and the Navy as of June 30, 1957.

The Spanish base construction program represents the first construction undertaken by the United States in Spain. We found that numerous changes in plans have resulted in increased costs, in construction delays, and, in one instance, in the construction delays, for which there was no apparent military need. How-

over, the administration of the physical construction generally was proceeding satisfactorily.

R 132041 February 3, 1958

Reconstruction of State Road 402 to Patrick Air Force Base, Cocoa, Fla.

The need for the new access road arose as an emergency problem with the acceleration of the ballistic missile program and was essential to the expedited construction program at Patrick Air Force Base. Our review disclosed that the cost of this project was not presented for authorization by the Congress in connection with the development of the base. Because of the lack of access road funds, the then existing directorate of construction, Assistant Chief of Staff, Installations, directed the Corps of Engineers to contract for the work and to use funds not authorized for this purpose. This action resulted in a violation of sections 3078, 3079, as amended, and 5733, Revised Statutes. Further, the cost of this off-base construction was recorded in the accounts as "Utilities" on Patrick Air Force Base and the true nature of the work performed was therefore not disclosed. In the absence of specific statutory authority for these expenditures, we will be required to disallow credit in the accounts of the disbursing officer involved in an amount of approximately \$300,000.

R 132004 February 28, 1958

Review of Phase Out Operations of the Southern Air Materiel Area, Europe (SAMAEE), Air Materiel Force, European Area, Department of the Air Force, Nouasseur, Morocco. This Review Was Made Pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Findings:

- Failure to provide for adequate utilization of depot stocks.
- Unrecorded depot stocks.
- Inadequate storage of surplus property.
- Failure to demilitarize excess sensitive property.
- Failure to reclaim repairable property.

R 118705 March 18, 1958

Report on the Review of the Activities of Overhaul and Repair Departments of Naval Air Stations Managed by the Bureau of Aeronautics, Department of the Navy.

Our review disclosed important weaknesses in the application of basic principles of management control generally recognized as needed to insure the orderly and efficient operation of aircraft maintenance activities. These weaknesses were evident in such areas as programming, workload scheduling, cost estimating, production control, analysis of variances, material support, and accounting and reporting.

The Bureau of Aeronautics is in the process of developing and installing several management improvement programs designed to overcome many of the specific problem areas disclosed in our report. Progress, however, has been slow and acceptance of the programs by the persons concerned has been varied. As a further step, the Navy has now decided to place the Overhaul and Repair Departments under the Navy industrial fund.

In our opinion, the weaknesses in management controls should be corrected regardless of the method of financing used. Further, we do not believe that a change in the method of financing, in itself, will accomplish any basic improvements in the operations.

R-132967 March 31, 1958

Review of the Department of the Navy Contract NOY-70345 With Pomeroy-Hawaiian Dredging-Bechtel, Subic Bay Naval Base, Philippine Islands. This Review Was Made Pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review disclosed several contract administration deficiencies. For example, a 48-hour workweek was established for all employees even though the majority of operations could be performed efficiently during a normal workweek of 40 hours. Also, under a periodic pay increase plan, employees who completed a 12-month contract, at the beginning of the second year, automatically received three step increases plus a 10-percent incentive increase. Both practices resulted in increased and unnecessary costs to the Government and were discontinued when brought to the attention of responsible Navy officials.

B-192078 May 6, 1958

Review of Activities of the U.S. Army Signal Supply Agency, Department of the Army.

This is the first review of the principal operating activities of USASMA made by the General Accounting Office. Our review disclosed a need for strengthening certain management controls related to supply, procurement, industrial mobilization, and accounting and financial reporting. The weaknesses in the controls pertain to items financed by both appropriated funds and the Army stock fund. Practically all of our recommendations to USASMA to improve these controls have been accepted and the necessary corrective action has been initiated. The prompt action taken should result in avoidance of substantial amounts of waste and unnecessary costs which otherwise would have occurred.

We plan to evaluate the effectiveness of the corrective action during our next review.

B-193005 May 20, 1958

Review of Aircraft Inspection and Repair Contracts, Air Materiel Force, European Area (AMFEA).

At the time of our examination, during the latter half of fiscal year 1957, the Maintenance and Services Branch was responsible for 41 active contracts with a total value of about \$20,200,000. We examined the files on 16 contracts with a total value of about \$10,140,000.

Sabenn's accounting system (Sabenn is a major European maintenance contractor) particularly the method of maintaining time records, was inadequate to protect the interests of the U.S. Government.

Properly records for U.S. Government-furnished parts valued in excess of \$3 million were not maintained by Sabenn in a satisfactory condition.

Properly administration did not receive much attention during the first 2 years that Sabenn was working on Air Force contracts.

B-193014 June 9, 1958

Report on the Review of Activities of the Supply Department, Naval Air Station, Pensacola, Fla.

Our review disclosed deficiencies in the controls over aircraft engines and other aeronautical material and in the administration of supply operations. Two of the more important findings were (1) a failure to report over 200 excess engines, thus forestalling their possible use by other governmental agencies and necessitating continued storage at Pensacola, and (2) the failure to declare helicopter parts worth more than \$1 million as excess, even though the Navy discontinued the use of this type of helicopter in 1955. With respect to the helicopter parts, we suggested to Supply Department officials at Pensacola that these parts be offered to the Army which still uses this type of helicopter. Subsequently, ready-for-issue spare parts valued at more than \$720,000 were made available to the Army at no cost. Other significant findings, together with our recommendations which we believe will correct or improve the deficiencies, are summarized in the highlights section of the report.

B-193052 July 30, 1958

Review of Activities of the Supply Department, Naval Air Station, North Island, San Diego, Calif.

Our review disclosed deficiencies in the controls over aircraft engines and other aeronautical material and in the administration of supply operations. We found that unserviceable engines classified as being in critically short supply, were not promptly removed from aircraft awaiting overhaul. Once removed from the aircraft, the shipment of these engines to the designated overhaul points was further delayed. These delays presumably increased the out-of-service time of the engines and the possibility of grounding aircraft in fleet use because of lack of engines. We found also that engines were unnecessarily shipped cross country when Bureau of Aeronautics instructions for shipment to overhaul points were not followed and other engines had to be reshipped because of the failure of the Bureau of Aeronautics to promptly revise shipping instructions when the overhaul point was changed. As a result, engines were delayed in reaching the overhaul point and unnecessary transportation costs were incurred. Other significant findings, together with our recommendations which we believe will correct or improve the deficiencies, are summarized in the highlights section of the report.

B-133068 August 20, 1958

Review of Selected Activities of the Ships Parts Control Center, Department of the Navy

Our review disclosed that approximately 50,000 low-cost ship repair part items in low demand throughout the supply system could be eliminated which would effect a systemwide savings of approximately \$1.0 million annually, excessive work costing more than \$300,000 a year was being performed in reviewing lists of repair parts for new equipment, and a number of items had been designated for mobilization reserve stocks which did not appear essential for wartime operations. The Navy has informed us that corrective action has been initiated and our recommendations have been implemented.

B-133010 November 25, 1958

Deficiencies in Management of Requirements and Control of Related Procurement for III-Vulu Aircraft Spare Parts, Sacramento Air Materiel Area, Department of the Air Force.

SMAMA is one of the largest Air Force depots and was allocated approximately \$85 million in fiscal year 1957 for procurement of aircraft parts.

We found that SMAMA officials did not have effective procedures for controlling important phases of requirements management for spare parts, particularly with respect to identifying and cancelling orders for excess equipment and obtaining reliable termination cost estimates. Because of these deficiencies, the requirements for certain III-Vulu items were overstated by \$1,500,000, and approximately \$500,000 of other parts were needlessly delivered in fiscal year 1957 after reduced requirements were computed.

As a result of information developed in our review, the Air Force canceled orders for excess parts with a total contract price of nearly \$1,500,000, at an estimated net saving in Government expenditures of approximately \$1,200,000. We recommended improved procedures and controls for the management of these activities at SMAMA at the conclusion of our initial review. Although considerable improvement was made thereafter, we found significant delays in the cancellation of orders for certain excess items in fiscal year 1958. A summary of our findings and recommendations begins on page 1.

B-133088 December 4, 1958

Review of the Settlement of Shipbuilders' Requests for Price Increases for Damages Arising From Government Delays in Furnishing Plans and Materials. These Settlements Were Made by the Bureau of Ships, Department of Navy.

Our review indicated important weaknesses in the Navy's procedures for evaluating and settling these requests. The Navy has accepted our recommendations for strengthening its procedures and has indicated that appropriate action will be taken to implement them.

Our review also revealed that the effectiveness of the Navy's system for supplying shipbuilders with Government-furnished plans and materials during periods of emergency is questionable.

B-133098 December 18, 1958

Review of Activities of the Supply Department, Naval Air Station, Alameda, Calif.

Our review disclosed deficiencies in the control over aircraft engines and other aeronautical materials and in the administration of supply operations. Two of the more important findings were (1) the shipment to overhaul points of unserviceable engines in critical supply was delayed for excessive periods of time, thus jeopardizing adequate fleet support, and (2) the ineffective control and delay in processing of critical items of repairable materials contributed to instances of work stoppage.

B-133043 February 3, 1959

Review of Activities of the U.S. Army Engineer Supply Center, Tokyo, Japan.

This is the first review of the principal operating activities of USAESC made by the General Accounting Office. We found that inadequate internal review and a general lack of supervisory control over supply actions have resulted in serious deficiencies. As a result of our review, USAESC canceled outstanding requisitions for material ordered from the continental United States amounting to about \$1 million. More important, however, many of our recommendations

have been adopted which should result in improved procedures and controls. We plan to evaluate the effectiveness of the corrective action during our next review.

B-188058 February 24, 1959

Report on the Feasibility of Consolidating the Submarine Supply Office With the Ships Parts Control Center, Department of the Navy.

Both of these offices manage inventories of certain items stocked in the Navy supply system. The Submarine Supply Office manages inventories of submarine repair parts including nuclear propulsion parts used on submarines and surface vessels. The Ships Parts Control Center manages inventories of ships hull and machinery repair parts. Almost one-third of the parts controlled by the Ships Parts Control Center are used on submarines as well as surface vessels.

Our study revealed that consolidation of these two activities would result in substantial savings to the Government annually. In addition, such a consolidation would provide for more efficient and economical management of submarine, nuclear, and ship repair parts by (1) eliminating one complete inventory reporting system, (2) simplifying and improving inventory and other supply management reporting, (3) accomplishing better standardization of stock items, and (4) accomplishing better use of military and civilian personnel talents through centralization of similar activities and close coordination in handling common supply problems.

B-182000 March 19, 1959

Review of Selected Supply and Related Disposal and Procurement Activities of the 8th U.S. Army (EUSA), Korea.

This is the first review of activities of EUSA made by the General Accounting Office. We found that deficiencies were of sufficient scope and significance to adversely affect efforts to provide an economical and efficient supply operation within EUSA. As a result of our review, EUSA canceled outstanding requisitions for material ordered from theater supply centers amounting to over \$3 million. In addition, the forecasts for lumber requirements were reevaluated and reduced by about 25 million board feet valued at about \$2.3 million, thus precluding possible overprocurement to this extent. We made recommendations which have been adopted which should assist in establishing improved controls and procedures.

B-118751 March 20, 1959

Review of Selected Supply Operations of the Northern Air Material Area, Europe (NAMA-E), Department of the Air Force, Burtonwood, England.

We found that large quantities of supplies had been ordered from prime depots in the United States for which NAMA-E had no requirement. We directed this situation to the attention of depot officials, and requisitions amounting to \$4,600,000 were canceled.

We found also that a stock reduction program, reducing NAMA-E assets by \$20 million, was carried out without properly considering stock needs and without coordinating other supply actions for the proper control and utilization of stock.

B-114800 April 23, 1959

Review of Supply Activities of the U.S. Army in Europe.

Following is a brief summary of the report:

1. Supply support capability of the COMZ (communication zone) seriously impaired by unreliable stock records.
2. The modern Army supply system objectives are not being achieved owing to continuing and substantial shortage of spare parts, etc.
3. Inadequate implementation of supply management concept.
4. Improper requirements computations.
5. Ordering of unneeded stock from the United States.
6. Ineffective performance of transportation supply control agency.
7. Inability to determine responsibility for losses in transit.
8. Uneconomical shipping and handling practices.
9. Improper disposal methods.

Under this topic it is noted that the GAO reports that better material is being disposed of than that retained in stock and specifically it is stated that "there were five new flat bed trailers with a unit price of \$4,028 in the process of being declared excess while four such trailers requiring minor repair were on hand for regular issue requirements." Apparently under the existing pro-

cedures it was easier to declare the new equipment surplus than the used since a specific listing of defects was required.

In general the GAO report indicates inefficiencies in the overall supply management activities of the U.S. Army in Europe and the enumerated items above indicate their nature.

B-133010 June 22, 1960

Review of Air Force Recorded Requirements in Relation to Stocks on Hand and on Order for Certain Aeronautical Spare Parts and of Our Subsequent Review of Actions Taken by the Air Force and, in Certain Cases, by the Navy to Cancel or Redistribute Excess Material. This Material Was Under Supply Management Control of the San Antonio Air Material Area (SAAMA), San Antonio, Tex.

We found that large quantities of aircraft parts on order in excess of needs were not canceled because satisfactory controls had not been established to assure timely cancellation upon when requirements were reduced. During our initial review of requirements records, SAAMA had, in excess of current program needs, over \$20 million worth of spare parts on hand and about \$20 million more on order. However, only a small portion of the excesses on contract had been canceled prior to our review, although program changes and other factors had caused many of these items to become excess 7 or 8 months earlier. We found also that the Navy was procuring similar items during this same period, without knowledge of Air Force excess stocks, and that at that time the Department of Defense did not have an effective system for redistributing inventories of aeronautical equipment and parts exceeding the current requirements of a service.

We recommended to the Air Force that contracts be canceled as soon as possible for the excess quantities on order that had not been delivered. The Air Force thereupon canceled orders for about \$10,300,000 worth of spare parts, with an estimated savings of between \$13 million and \$14 million after termination charges. We also referred information regarding the Air Force excess stocks to the Navy for screening and recommended to both services that maximum utilization be made of available Air Force parts to meet the Navy's current needs. From January through May 1958, the Navy acquired over \$1,000,000 worth of engine and accessory parts from the Air Force.

B-118726 July 13, 1960

Examination of Rental Charges for Commercial Use of Government-Owned Facilities Furnished to Bell Helicopter Corp., Fort Worth, Tex., by the Department of the Navy.

We found that the contractor had been using the Government-owned facilities for several years for commercial production without payment of rent. When we brought this matter to the attention of Navy contracting officials, rental charges aggregating \$230,475 were negotiated for the period through December 31, 1958, and an additional charge of about \$17,000 for 1957 is still under negotiation.

B-114840 September 17, 1959

Review of Selected Activities of the Military Sea Transportation Service, Department of the Navy.

Our review disclosed that the lack of a firm Department of Defense policy as to the transportation of troops via air or sea and the frequent failure of the military departments to promptly notify MSTTS of changes in their space requirements result in poor utilization of ships and unnecessary costs. With respect to the poor utilization of troop ships, we noted that over 870,000 troop berths, out of a total of 1,600,000 berths available during voyages made in fiscal years 1957 and 1958, were unoccupied. We also found that MSTTS was having its ships in the western Pacific area repaired by private Japanese contractors, while at the same time a Navy repair facility in Japan was only partially utilized. A summary of our findings and recommendations is located in the forepart of the report beginning on page 8.

Poor utilization of ships was previously reported to the Congress in our report dated September 5, 1957. The enclosed report discloses that no significant improvement in the utilization of troop space has been made and that failure to notify MSTTS of changes in space requirements continued to cause poor utilization of cargo ships.

This report contains a number of recommendations to the Department of Defense for appropriate corrective action.

Because of our inability to obtain unrestricted access to a report on an internal review of MSTM procurement and contracting activities made by the Procurement Review Group of the Office of Naval Material, we were unable to give due consideration to their work in this review as specifically required of us by law.

D-133201 November 24, 1959

Review of Management of Leased Private Lines Telephone Facilities in the Department of Defense and Selected Civil Agencies.

The Government has been incurring excessive costs amounting to possibly more than a million dollars annually in the leasing of private lines telephone facilities. These excesses have been the result of (1) the erroneous application of certain rates and (2) inefficient administrative practices on the part of the Government departments and agencies. Because of the highly complex nature of the problems which would be involved in developing an accurate projection of the total effect of these uneconomical practices, we are not in a position to make a firm prediction as to the total amount of savings that could be accomplished by the corrective actions which we are recommending herein.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.C., July 10, 1959.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Your letter of January 15, 1959, to the Secretary of Defense requested a statement as to plans contemplated and actions accomplished which are related to the objectives of section 3(a) (6) of Public Law 85-509. In February our respective staff members held discussions to clarify the range and depth of the information requested. I appreciate your courtesy in permitting this delay in responding to your letter.

As a result of the staff discussions, it was decided that the Department of Defense should address its reply to the broad functional areas mentioned by Mr. McCormack during the 1958 debate on the Reorganization Act. The enclosure to this letter, therefore, contains the information requested in a listed sequence by major functional area. In this enclosure, only those actions and plans completed or initiated since August 6, 1958, the date of the Defense Reorganization Act, have been included. We have used this date as a starting point since your letter was primarily addressed to plans or actions related to section 3(a) (6) which is known as the McCormack amendment to the Defense Reorganization Act.

Your letter noted that steps toward greater efficiency have been made through the single-manager systems but indicated that other potential common supply classes have not been included in this type of supply system. You likewise indicated disappointment that more progress has not been made under the original National Security Act and under the O'Mahoney amendment of 1952.

In those commodity areas where it can be demonstrated that integration of management will be economical and will not impair effective material support of our combat forces, we shall continue to make progress by consolidating logistical assignments. Our planning in this regard is detailed in the enclosure to this letter.

The plans and actions outlined in the enclosure cover a period of approximately 8 months. Prior to the passage of the Reorganization Act of 1958, and during the period between the O'Mahoney and the McCormack amendments, the Department of Defense did institute many very important improvements which were specifically designed to bring about effectiveness and economy in logistics operations. Certain of these improvements resulted in consolidations between services and others in the improvement in policies and procedures. Because of your expressed interest in the progress during this period, I would like to cite several of the important improvements accomplished between 1952 and 1958.

In July of 1958, the Armed Forces Supply Support Center was activated. This center integrated in one organization the management of defensewide functions of cataloging, standardization, and materiel utilization. In addition, the

center likewise includes an organizational group of top talent supply analysts who are spending full time in the development of improved procedures for application throughout the logistics systems.

Starting in 1956, and continuing on a progressive basis thereafter, the single-manager systems were instituted in four commodity areas and in the service areas for land, sea, and air transportation.

The program for single department procurement assignments has expanded to the point that well over one-half of the value of the fiscal year 1959 procurement program will be performed under consolidated buying arrangements.

In this same period, the Federal Catalog System was initiated and currently the 3.4 million items in our supply systems have been centrally identified, cataloged, and the common identifications have been adopted for use in all logistic operations of the Department.

Comprehensive systems providing for the interchange of material assets between the services on a continuing basis were established and such interchange is taking place at a rate of several hundreds of millions of dollars each year. In addition, we have reduced our supply system inventories by \$4 billion between June 30, 1957, and December 31, 1958.

Significant progress has been achieved in attaining cross-utilization of training facilities and activities, medical facilities, and services including hospitals, dispensaries, laboratories, research facilities, food inspection, field X-ray, and epidemiological services.

We have continuously refined and improved our fiscal accounting system. Progress has continued in extending the use of working capital funds. Consumable inventories have been placed on an interdepartmental basis for practically all types of materiel except spare parts. In all, 55 charters for industrial funds have been issued to finance the operations of 138 activities.

We have made progress. The plans and actions listed on the enclosure will bring a report of progress up to the current date. We shall continue to make progress through consolidation of logistical assignments, where feasible. We shall continue our efforts to improve policies, procedures and practices in all areas. We enthusiastically support the objectives of the McCormack Amendment and we intend to press forward to attain a level of efficient and economical management which will fully achieve the intent of the Amendment.

Because of the wide range of activities and the time period (1953-58) in which you expressed an interest, we have not covered in complete detail all of the actions described in the enclosure. However, I would welcome the opportunity to discuss with you the many aspects of our progress to date and to describe in detail our plans for the future.

Recently a number of your colleagues have also expressed an interest in this important subject. As indicated in our interim reply, we will send a copy of this letter and its enclosure to Senators Lausche and Gruening and to Representatives Curtis and McCormack.

Your continuing interest in this important field is greatly appreciated.

Sincerely yours,

PERKINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

DEPARTMENT OF DEFENSE SUPPLY AND SERVICE FUNCTIONS

ACTIONS TAKEN, IN PROCESS, OR PLANNED IN IMPLEMENTATION OF SECTION 3(2) (6) OF PUBLIC LAW 85-599 (SINCE AUGUST 6, 1958)

I. INVENTORY MANAGEMENT AND DISTRIBUTION

1. Criteria were published on October 30, 1958, for the selection of commodities amenable to the single-manager technique and for the selection of the most qualified military department to administer a single-manager assignment.

2. A comprehensive study is underway of the general supplies area. The purpose is to determine the feasibility of managing these types of items under a single-manager system. Included in this commodity range are household and office furniture, household and commercial furnishings and appliances, office machines, office supplies, cleaning equipment and supplies, containers and packing supplies, toiletries, paper and paperboard, food preparation and sewing

equipment, musical instruments, recreational and athletic equipment, and other related administrative and housekeeping supplies as well as handtools. Additional commodity areas will be studied subsequent to the completion of the "General Supplies" study.

3. Action is underway to eliminate large segments of the Navy retail subsistence stocks by their consolidation within the single-manager system. In February 1959, such action was directed for the largest Navy tidewater depots at Norfolk and Oakland.

4. A Commodity Management Center has been established for clothing. The Department of the Navy physically moved its retail clothing supply operation to the Military Clothing and Textile Supply Agency in February 1959. This completed the actions required to establish this commodity management center, since the Air Force had taken similar action during the summer of 1958.

5. The supply stockrooms and inventory control of departmental office supplies in the Navy are being phased out and integrated with the existing GSA distribution system for similar stocks.

6. Based on published Department of Defense policy, uniform factors for determining stock levels based on economic considerations, for all items of non-combat essentially are under development for use by all military services.

7. A major policy directive covering interservice support is in preparation. This policy will delineate the scope, responsibilities, and the resources for interservice and is a prerequisite to making significant single service assignments.

8. An analysis has been initiated of the Department of Defense local purchase practices. The purpose of this study will be to analyze the Department of Defense's local purchase programs with the objective of establishing and installing uniform purchase policies throughout all military supply systems.

9. Basic agreements with the GSA are being developed and implemented. These agreements will be directed toward the greater utilization of GSA facilities in support of Department of Defense supply requirements.

10. A study will be initiated to extend the single-manager distribution system for medical and dental material to Hawaii and to eliminate separate service retail depot systems. Other applicable overseas areas will subsequently be reviewed for the same purpose.

11. A comprehensive review of policies and criteria covering the stockage of items for mobilization reserve is well underway. Revised criteria restricting the range of items authorized for mobilization reserve stockage will be published.

12. A joint study is being conducted for the purpose of revising and making uniform the factors for computing the mobilization materiel pipeline.

II. UTILIZATION

1. On September 25, 1958, a policy was issued governing the screening of excess personal property under the control of the Department of Defense worldwide. Developed with the coordination of the GSA, this revised policy should result in the utilization of military property at an increased rate by civil agencies.

2. The Secretary of Defense has issued a directive which makes all inventories above a uniform retention level available to meet all valid requirements of the Department of Defense without charge. Implementation of this policy will provide for integrated matching of requirements against long supply assets and will assure the optimum utilization of long supply stocks.

3. Under development is an improved program for expediting the screening and utilization of local long supply stocks.

III. TRANSPORTATION

1. Consolidation through organizational assignment of certain port terminal functions in the New York-New Jersey area was completed on November 1, 1958. As a result of this action, one military installation was eliminated. In addition, certain port terminal operations in the San Francisco area were consolidated by January 1959.

2. Studies are in process in the Hampton Roads and Honolulu areas with a view toward establishing single-service assignments for port terminal operations in those areas.

3. A study was launched to evaluate Department of Defense transportation and traffic management. The first phase has been completed and an evaluation, in conjunction with the military departments, of the surveys, comments, and accompanying recommendations has been initiated. The purpose is to determine

what, if any, changes should be made that would improve Department of Defense transportation.

IV. INSPECTION

1. On September 25, 1958, the Department of the Army was assigned responsibility for performing food inspection for all military departments, and for making maximum use of the Department of Agriculture.

2. A series of major Department of Defense policies is being developed and issued which sets forth uniform Department of Defense inspection and quality control policies for the three military departments. The overall effect will be to prevent defective products from being manufactured, eliminating duplication between Government and industry, and making Government inspection operations more uniform and economical.

3. A Department of Defense inspection training plan has been agreed upon by the three military departments. Under the aegis of OASD (S. & L.) this training will be conducted by the Department of the Army for all departmental inspectors. This will not only cut training costs, but will also be a big step forward in standardizing inspection procedures.

4. Plans are currently being discussed with USA to increase inspection cross-serviceing between the Department of Defense and with other Federal agencies. Presently, the Department of the Navy is using services of the AEC in training inspectors responsible for the inspection and acceptance of equipment related to nuclear devices.

5. A policy is under development which will require cross-serviceing between the military departments of laboratory facilities for procurement inspection and testing.

V. WAREHOUSING

1. A cross-serviceing agreement has been made between the Department of Defense and the General Services Administration whereby storage space operated by the Federal agency can be used by any other Federal agency. A Department of Defense instruction to the military departments implementing this agreement has been issued.

2. An analysis has been made of the ammunition outloading terminals and storage facilities to determine the relationship between present capacity and anticipated requirements. A further study will be made to determine what specific facilities should be inactivated as well as the specific measures required to eliminate the terminal deficiency on the west coast.

3. Twenty-seven million square feet of covered storage space has been inactivated by the Department of Defense between September 1954 and December 1958. This is a continuing program and additional analyses are being made to determine the possibility of further contraction of storage space.

4. The OSD has assigned responsibility to the Department of the Army for developing a related series of unit loads, with all-weather characteristics, to be used and adopted by all military services. The unit load is a consolidated pack which can be handled by mechanical means as a single unit.

VI. STANDARDIZATION

1. An accelerated item reduction program (AIR) was initiated during 1958 and is scheduled for completion on December 31, 1961. This program is designed to achieve a rapid reduction in the number of different sizes and varieties of items in the military supply systems while, at the same time, increasing the use of the remaining items by more than one service.

2. A reevaluation is underway of the standardization program, including the development and utilization of specifications to analyze critically the methods, procedures, and projects followed with a view toward program adjustments which will concentrate more of the Department of Defense available resources on high payoff areas.

3. A system of defensewide controls is being developed to prevent the unjustified entry of nonstandard items into the military supply systems.

VII. PROCUREMENT

1. Provision has been made for Government property in the possession of contractors to be administered by one military department at each facility performing contracts for more than one procuring activity. Proposed Department

of Defense procedures are being reviewed for the interchange of property administration and for uniform submissions by the contractor of data required by the services.

2. A determination is being made on the feasibility of having a single service assignment for all common electron tubes.

VIII. CATALOGING

1. Decentralization of catalog operations is underway in the Navy. In lieu thereof, direct communication will be established with the AFSSC. This will result in the disestablishment of the Navy Materiel Catalog Office.

IX. SURPLUS PROPERTY

1. Action is underway to make single-service assignments for all surplus property sales offices, thereby reducing some 300 such current offices to an optimum number under 40.

2. Work is proceeding on establishing a centrally controlled National Bidders' List for uniform use by all military services. This will streamline operations, reduce costs, and provide a focal point for all those interested in buying surplus personal property.

3. A single-service assignment to the Department of the Army is in process for the instruction and training of all personnel of all services engaged in military surplus personal property work.

X. TELECOMMUNICATIONS

1. The military departments' communication program requirements are constantly under scrutiny to obtain the maximum use of existing facilities and the maximum consolidation of the worldwide long-haul circuits. A Department of Defense policy directed toward the attainment of a common integrated Department of Defense worldwide system was promulgated in March 1959.

2. Congressional action has been requested for enactment of legislation to authorize the disposal of Government-owned long-line communication facilities in Alaska.

XI. PRODUCTION

1. On April 14, 1959, a management consultant firm under contract to OSD completed its study of the functions of both the Electronics Production Resources Agency (EPRA) and the Aircraft Production Resources Agency (APRA). As a result, APRA will be discontinued as of June 30, 1959, thus saving approximately \$200,000 per year. EPRA will be continued but with certain changes in its management organization and in its regularly published reports. It is anticipated that these latter changes will result in a savings of some \$50,000 per year, including man-hour costs for collection and compilation of data, as well as printing and distribution.

2. A document is under development which will provide a common procedure leading to a single thoroughly documented report and position on all national security impairment studies undertaken for the Director of Civil and Defense Mobilization under section 8 of the Trade Agreements Extension Act of 1958.

XII. FINANCIAL MANAGEMENT, INCLUDING BUDGETING, DISBURSING, AND ACCOUNTING

1. A study is now under way to determine the merits of consolidating the contract audit activities of the three military departments into a single audit agency to fulfill all contract audit requirements of the Department.

2. Simplified methods for the use of intra and inter department reimbursements are being developed. These improvements include automatic apportionment and funding of work or services to make reimbursements locally available at the activity that earns them. The Department of Defense has proposed reimbursement regulations which are currently being discussed with the Bureau of the Budget. In fiscal year 1960, reimbursable methods will be extended to cover cross-servicing between activities financed under the same appropriations.

3. Directives are now being developed to comply with recent legislation and to assist coordinated programing and budgeting for capital and operating requirements.

4. A Department of Defense directive recently has been issued which establishes a defensewide program for improving financial management of operations and maintenance in the Department of Defense. The directive establishes the policies, principles, and guidelines to be observed by the military departments and requires each department to set up a program in accordance therewith. The directive deals comprehensively with cost-based budgeting, integrated account structure, bases of budgeting and accounting, operating budgets, funding, accounting records and financial reporting in the operations and maintenance area. Similar directives will be completed for programs financed under appropriations for military construction, procurement, and production, research and development and military personnel costs. Navy has reduced its 10 appropriations for operations and maintenance to 2: 1 Navy and 1 Marine Corps. A major forward step made on a defensewide basis was the separation of the costs of research and development and procurement and production.

5. An additional 61 industrial- and commercial-type activities are programed for industrial funding to augment the 53 charters for industrial funds which finance the operations of 138 activities.

6. An organized cooperative effort with the Department of the Army and the Department of the Navy has been initiated to establish an intensified industrial fund improvements program for systematic improvement of the management and financial control of industrially funded activities. Survey teams have visited pilot installations to measure our attained progress, identified areas which offer opportunity for further improvement, and a program is under way which will consolidate and extend improvement throughout these industrially funded activities.

7. A study is currently being made of operation and maintenance costs. It is believed that this study will isolate those functions and operations which account for the significant differences in operating costs as between military departments and will develop tighter standards for the performance of installation support functions.

8. An integrated audit, worldwide, of the military assistance program is now substantially completed and represents the first Departmentwide coordinated audit performed under the direct supervision of the Office of the Secretary of Defense. In contract audit the system of plant cognizance by one military department has been recently broadened to companywide cognizance.

9. Additional use of stock fund financing is either programed or under consideration by Army, Navy, and Marine Corps. The Army is considering the bulk of its retail stocks; the Navy is considering ordnance and aircraft spare parts, wholesale and retail. Extension of the Air Force stock fund to include the bulk of its consumption-type material, including spare parts, both wholesale and retail, is still subject to the Office of the Secretary of Defense-Air Force agreement.

XIII. MEDICAL AND HOSPITAL SERVICES

1. A study will be undertaken of the effectiveness and operation of the Joint coordination group, which is responsible for the deletion and addition of items to the stock list and the establishment of military and essential characteristics.

2. A study is being undertaken of the joint blood group, which provides for joint policies and cross utilization of collection facilities and distribution necessary to make the operations of the joint blood group more effective.

3. A catalog has been developed of essential survival items keyed to electrical and electronics systems coded to the Office of Civilian and Defense Mobilization survival list for use in the event of nuclear disaster by the medical supply elements of the Department of Defense. It is expected that this catalog, after some experience has been gained in its usage, will be extended and improved.

XIV. INTELLIGENCE

1. There is currently under development a comprehensive proposal which, if successful in a pilot test, should result within a year or 18 months in thorough integration of all attaché administrative and logistical functions.

2. All possible efforts are being made to make maximum effective use of resources of technological intelligence techniques and to reduce the total resources needed by presentation of a single coordinated defensewide budget and by use of various versions of the executive agency principle including collocation of

units and joint processing centers. These fields are governed by recent National Security Council decisions based on formal investigations and continuing close scrutiny of the President's Scientific Advisers.

XV. MILITARY POLICE

1. A joint review of the offpost police activities recently has been conducted. The purpose of the review was to assure compliance with Department of Defense policies and with Joint regulations of the military departments pursuant thereto. The review disclosed that the services are in fact conducting joint operations, that patrols are used only where necessary, and that some reductions in patrols and personnel have been effected at the local level.

2. The establishment of an armed services police detachment, with reduced personnel and equipment, is contemplated for San Antonio, Tex.

XVI. TRAINING

1. Consideration is being given to further consolidation of schools in food service, military justice, music, and administration. Specifically, consideration is being given to the Navy assuming responsibility for the training of all enlisted court reports; the Navy providing training for Air Force advanced bandmen, and the Army extending food services training for Air Force Reserve components.

2. A study is currently under way of the language-training facilities of the Department of Defense to determine the most efficient and economical method of conducting language training.

3. Logistics training has received special emphasis during the past several years. Procurement training and quality control training are several of the occupational areas currently being studied.

XVII. ENGINEERING CONSTRUCTION SERVICES

1. The issuance of Department of Defense design standard and uniform criteria has been strengthened and is being extended to assure that the construction requirements of all three military departments are accomplished under comparable cost and quality criteria.

NOVEMBER 12, 1959.

HON. **RAYMOND J. SAULNIER**,
Council of Economic Advisers,
Washington, D.C.

DEAR DR. SAULNIER: Further reference is made to my letter of May 22, 1959, and to related correspondence concerning the approach to take to bring about economy and efficiency in the supply management activities of the Department of Defense.

I have recently been gratified to learn that the Armed Services Supply Center which operates under the aegis of Assistant Secretary of Defense, the Honorable Perkins McGuire, has made a very worthwhile study, report and recommendation concerning the management of certain classes of common supplies. This report on the management of general supplies is a step toward the implementation of the McCormack-Curtis amendment to the Defense Reorganization Act of 1958 to which I referred in my letter to you of May 22, 1959. By coincidence the report, though made independently, supports strongly most of the points which were listed in my letter to you of May 22 as a basis for an action program.

I hope that you request a copy of the study and report from Secretary McGuire. It embraces seven separate volumes and it would be worth your while to read them and especially the two summary sections. I make the suggestion to you since the measures taken or proposed, though important, are only token of the possibilities of integration in the supply systems of the DOD and in numerous service functions which are now more or less independently conducted by the agencies of the DOD.

Any encouragement and other support that you can give to those in the DOD who are conscientiously carrying on this endeavor would be most helpful.

Sincerely,

THOMAS B. CURTIS.

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,

May 5, 1959.

HON. THOMAS B. CURTIS,
House of Representatives,
Washington, D.C.

DEAR TOM: Your letter regarding military supply and service programs came to me almost simultaneously with a letter from Congressman Clarence Brown who expresses views much like yours. I told him that what he said made sense to me, and I say the same to you.

The question is: How do we get a hold on this problem?

I'll look into it and see if I can't find a way to make some progress.

With warm regards,

RAYMOND J. SAULNIER.

UNIFICATION OF MILITARY PROCUREMENT AND SUPPLY

(Extension of Remarks of Hon. Thomas B. Curtis of Missouri in the House of Representatives, Wednesday, May 27, 1959)

Mr. CURTIS of Missouri. Mr. Speaker, on May 12, 1959, I called to the attention of the Members of the House the contents of a letter which I addressed to the Chairman, Council of Economic Advisers, Hon. Raymond J. Saulnier, regarding the need for forceful action toward unification of military procurement and supply not only for the sake of defense itself but to relieve the economy of the inflationary pressures which are now being exerted upon it.

On May 22 I again wrote to Mr. Saulnier on "How do we get hold of this problem?" and I wish to have it inserted in the Record for the information of my colleagues:

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 22, 1959.

HON. RAYMOND J. SAULNIER,
Council of Economic Advisers,
Washington, D.C.

"DEAR DR. SAULNIER: Reference is made to your letter of May 5, 1959, in response to mine of April 8, 1959.

"I am in complete agreement with the implication of your question, 'How do we get a hold on this problem.' In other words, this matter has been studied and restudied and what is needed now is a program of positive action.

"As I stated in my previous letter, the McCormack-Curtis amendment to the Department of Defense Reorganization Act, 1958, gives the Secretary of Defense broad authority 'for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate.'

"It has been estimated that the supply and service activities or support activities take the major portion of the annual budget and besides this, we have the enormous inventories and facilities of the various military services all over the world.

"When the Department of Defense Reorganization Act, Public Law 85-599, was before the House of Representatives on June 12, 1958, Congressman McCormack listed a number of supply and services activities which fall within the scope of the amendment. Some months ago, I wrote to the Secretary of Defense and asked that he list all the activities which would fall within the scope of this amendment and to advise with respect to each just what action has been taken or was contemplated. I understand that Senators Douglas, Lausche, and perhaps others have written similar letters but have had no response to date.

"It is my firm conviction that a topside action committee should be constituted to operate at the Presidential level to set up time schedules for the fulfillment of a number of programs which have been on dead center for a long time. I would include the following as a start:

"1. Schedule the transfer of common-use administrative or commercial-type supply and services to GSA as contemplated by the GSA Act which is now 10 years old. This will involve the transfer of facilities and personnel with the activities.

"2. Evaluate the present single manager plans for (a) subsistence and clothing, (b) petroleum products, (c) medical supply and if basically successful, streamline them and extend the plans to other classes of items. Also determine if they should be combined into a system of general military supply depots.

3. Consolidate and streamline surplus property disposal including the donable program.

"4. Make provision for a property inventory control system which will permit a review of existing common items in all the military inventories before additional orders are placed.

"5. Institute a genuine action program to develop to the maximum standardization of supply items, form procedures, systems, reporting, accounting, etc. (For example there should be a discontinuance of special service insignia on blankets and other items of common supply which prevent excesses from being transferred to other agencies. Recently, the Marine Corps declared 260,000 blankets excess but as they bore special insignia, the other services did not want them.)

"6. Make a speedy determination as to when stock funds should and should not be used.

"In order to get a running start on the overall program, I recommend that the Hoover task force committee be utilized as an advisory committee to assist a special action task force. The Hoover task force members as you know, have spent long periods of time studying these matters, are wholly objective in their views and were carefully chosen in the first place because of their competence in the respective fields.

"The importance of these matters in their economic impact on the country is related to there being in effective existence a streamlined, efficient, and economical supply system. Little or no use has apparently been made of the Defense Reorganization Act of 1958 which was designed to provide all necessary legislative authority. Real action thus is an executive responsibility.

"Since the Department of Defense is making such unsatisfactory progress under its own volition, I suggest the appropriateness of the Bureau of the Budget, in its capacity as the management arm for the President, being directed to establish such internal organization in the Bureau as is necessary to really take hold of this matter and accomplish the results—and benefits—which have so clearly been blueprinted as attainable.

"Sincerely,

"THOMAS B. CURTIS."

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., February 17, 1959.

Hon. NEIL H. McELROY,
Secretary of Defense,
Washington, D.C.

DEAR MR. SECRETARY: I am enclosing a clipping from the Wall Street Journal of February 16, 1959, entitled "ITT, RCA To Run Big Air Force Planning Project."

The core of the article appears to be stated in the first two paragraphs:

"International Telephone & Telegraph Co. and Radio Corporation of America will develop and supervise a long-term program to expand the Air Force's worldwide communications to meet space-age requirements.

"As a first step, the Air Force said it will award the two-company team a \$3 million contract to begin studying the huge problem. But officials flatly refused to estimate total cost of the study or the equipment that eventually will be installed. Unofficial estimates for development work and equipment run as high as several billion dollars * * *."

This article, if true, raises a number of very important questions which I think should be clarified.

1. Has this project been cleared by you and have you decided that this project should be handled by a management-type contract?

2. If so, have you determined that the Signal Corps of the Army or other existing agencies of the DOD or the Government are not qualified to carry out this project? In this connection I am enclosing six questions I raised with your predecessor concerning the Army Engineers and the so-called SCARWAF and reply by Robert Tripp Ross on December 2, 1955.

The third paragraph of Mr. Ross' letter is very pertinent to the instant case:

"It was the intent of Congress, as conveyed in the National Security Act of

1947, that common services required by two or more of the military departments should be provided on a unified basis whenever this could be accomplished at a savings to the Government and without detriment to the performance of operational missions. The conclusion reached in consonance with this principle is that the abolishment of the SCARWAF category and the return of the functions to the Department of the Army's control will achieve improved operations, foster effective utilization of available manpower and facilities and reduce expenditures * * *."

3. Aside from the intent of the original National Security Act and the regulations issued under the Eisenhower-Spautz agreements as to working relationships to be adhered to by the Air Force and the Army is the application of the McCormack amendment to the DOD Reorganization Act of 1958.

Specifically, why is such an expensive study of needed communication services not aimed at determining what is needed by the DOD as a whole particularly as concerns the Joint commands and the numerous facilities in the Zone of Interior?

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

MARCH 7, 1959.

HON. JOHN W. McCORMACK,
House of Representatives

DEAR MR. McCORMACK: The Secretary of Defense has requested that I respond to your letter to him, dated February 17, 1959, in which you requested information on the International Telephone & Telegraph Co. and Radio Corp. of America proposed contract to develop and design a master plan for communications system to support the missions of the Air Force.

The need for a modern high capacity, high speed, reliable worldwide communications system (referenced in the press clipping forwarded with your letter) is self-evident when one considers the advances which have been made in science and technology in aircraft, missiles, and warhead yield.

Prior to the enactment of the Reorganization Act of 1958, unilateral development and operation of communication systems was authorized under the Key West agreement as a function of command. Anticipating the changes in the command structure under the proposed reorganization, my office directed a memorandum to the Joint Staff in August 1958, which required the Joint Staff to develop plans for a common integrated compatible worldwide point-to-point network.

The Department of Defense is currently taking steps to accomplish this objective. Current planning provides for common switching centers, trunking circuits, signal characteristics, compatible equipment and alternate routing with high degree of reliability. The information gained from the Air Force contract, which is the subject of this letter, will be phased into the Department of Defense common communications network planning.

The management of telecommunications to assure the establishment and implementation of a Department of Defense integrated system will be under the policy guidance of my office. A directive has been formulated and is awaiting signature, which will delineate the responsibilities of all elements in the Department of Defense toward attainment of this common network.

The Air Force project, which has been designated WS480L, is directed at the specialized communications needs of the U.S. Air Force in the time period 1960 and beyond. This contract is a study and system design effort and does not directly involve a major equipment procurement.

Answering your specific questions:

1. Research and development funding in the amount of \$3 million has been approved for the reasons outlined in this letter. The Air Force long-term requirements must be determined in this area and the complexity of the problems are such that a contractor can most effectively make such a study.

2. It is appropriate that the highly specialized requirements of the U.S. Air Force be developed under their direction and guidance. The U.S. Army has the same problem of meeting specialized communication needs in 1960 and beyond. Their plans also call for services similar to those obtained by the Air Force.

The Army and Air Force requirements generated as a result of such study contracts will be used as the basis for the further development of a military communications system to which each military department will contribute its

designated share. This will be a Department of Defense team effort supervised by the Office of the Secretary of Defense.

Your interest in this matter is appreciated.

Sincerely yours,

PERKINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., February 9, 1959.

HON. PAUL H. DOUGLAS,
U.S. Senate,
Washington, D.C.

DEAR PAUL: I am in receipt of your letter of February 4, 1959, with attached copy of Acting Assistant Secretary of Defense C. P. Milne's letter of January 20, 1959, concerning the implementation of the McCormack amendment to the Department of Defense Reorganization Act of 1958 (Public Law 85-599).

I am gratified that Secretary Milne and his associates consider that the charter established by the act "offers an outstanding opportunity to effect dollar savings and, at the same time, to increase effectiveness and efficiency within the Department of Defense."

I am at a loss, therefore, to understand why the Office of Supply and Logistics would not by this time have developed a working program to implement the intent of the act as they interpret it. Your letter of January 15, 1959, is very timely in revealing this situation. I am sure that the long history of this legislation, in which you have contributed so much, reveals what is meant by "supply and service activities."

On June 12, 1958, I discussed, at considerable length, during the debate on H.R. 12541 in the House, the meaning of the McCormack amendment. (See p. 9029 of the Congressional Record.)

It is my conviction that Assistant Secretary McGuire and his associates firmly believe in this legislation and desire to implement it. May I suggest, therefore, that you use the items I mentioned on June 12, 1958, as a starting point for discussion. What has been done to implement these?

Also, why has expansion of the single manager system come to a standstill? If the system has been successful as to clothing and subsistence, medical supply, etc., why has it not been extended to many other common classes of supply such as general stores, electronics, photographic, etc.? What about a single manager for the disposal of surplus property worldwide? What has been done in the overseas areas to integrate supply and service activities? The numerous GAO reports show that much needs to be done within and amongst these areas as to inventory control, requirements determination, cross-servicing, etc.

Your continuing interest in this subject is greatly appreciated as I confidently believe that we can transmute military waste into enough gold to finance many essentials to our defense and our national economy.

It is my belief that the impact of military supply management from procurement through the annual disposal of \$8 to \$10 billion in surpluses is of prime importance to our national economy including both large and small businesses.

With kind regards, I am,

Sincerely yours,

JOHN W. MCCORMACK, *Majority Leader.*

U.S. SENATE,
Washington, D.C., January 15, 1959.

HON. NEIL H. McELROY,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: In my opinion it is important that we make the maximum possible economy in defense and other operations in order that we may finance projects vital to our defense and general welfare and, possibly make a reduction in our national debt and income-tax levies.

Because of this I am very interested in section 3(a) (6) of Public Law 85 509, which is known as the McCormack amendment to the Department of Defense Reorganization Act of 1958. As you know, the McCormack amendment permits you to provide for carrying out of any supply and service activity common to more than one military department by a single agency or such other organizational outlets as you deem appropriate.

The combined supply and service activities certainly constitute a large part of the military budget. I am aware that some steps toward greater efficiency have been made through the so called single manager systems but I also understand that other potential common supply classes have not been brought into this type of structure. I also realize that there have been some other actions taken in conformance with the McCormack amendment but I am very much interested in knowing to what extent all "supply and service" activities have been systematically defined and programed for implementation within the intent of the amendment.

Will you kindly supply me with a listing of all the supply and service activities within the Department of Defense which are common to more than one military department and a statement as to what plans or actions have been taken or are contemplated to bring about necessary effectiveness, economy or efficiency with respect to them.

As you know, I have been interested in this subject for a great many years and have been dismayed to date that more progress has not been made under the original National Security Act and under the O'Mahoney amendment of 1952.

I believe that the present character gives you an outstanding opportunity to save untold sums of money and at the same time to increase effectiveness and efficiency within the Defense Establishment.

A reply at your early convenience will be greatly appreciated.

With best wishes,

Faithfully,

PAUL H. DOUGLAS.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.C., January 20, 1959.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: This is with further reference to your letter of January 15 to Secretary McElroy, requesting various data pertaining to section 3(a) (6) of Public Law 85-509, which is known as the McCormack amendment to the Department of Defense Reorganization Act of 1958.

As the principal staff assistant to the Secretary of Defense in the supply and logistics area, this Office is most concerned with both optimum and expeditious implementation of the McCormack amendment. We share your observation that the present charter offers an outstanding opportunity to effect dollar savings and, at the same time, to increase effectiveness and efficiency within the Department of Defense.

As you can appreciate, however, the terms "supply" and "services" are very broad and encompassing. For this reason, we are not clear as to the scope, form, or detail of the material you desire. In the interest, therefore, of furnishing you the information you requested exactly as you want it and as quickly as possible, may I suggest that you and I or perhaps if you prefer, just our staffs arrange to get together to discuss and clarify the areas you have expressed an interest in.

I have asked Mr. Paul Riley, Director of Supply Management Policy, code 11, extension 79238, to firm up arrangements for such a meeting. I would appreciate, therefore, your office contacting Mr. Riley in order that we may expedite this matter.

Sincerely yours,

C. P. MILNE,
Acting Assistant Secretary of Defense (Supply and Logistics).

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., April 28, 1950.

HON. RAYMOND J. SAULNIER,
Chairman, Council of Economic Advisors,
Washington, D.C.

DEAR DR. SAULNIER: I am sure that you recall the recent discussion at the hearings of the Joint Economic Committee concerning the impact of military supply and service programs on the national economy.

It has been my strong belief for many years that the enormity of the military supply activities has a tremendous effect on the entire economy. Furthermore, from my personal knowledge of the overlapping, duplication, and waste in and amongst the many military supply systems there is an urgent need to bring about corrective measures at the earliest possible date.

Enclosed is a report of the House Government Operations Committee which, at page 65 and following, details the extent of the military supply inventories. When one considers that the inventory of personal property is almost \$120 billion, and that in the "supply systems" alone there is \$47 billion, it is no wonder that annual declarations of surpluses run at \$8 to 10 billion and will continue to do so. I am sure that the attached monthly list of excess military property I am enclosing as a sample is convincing that factors other than obsolescence are responsible for generating much of the excess military property. If you will analyze the reported inventories of the individual departments and services, I am sure that you will agree that much needs to be done to integrate common supply activities. But despite a long history of efforts to do just that, the military bureaucracies have always managed to remain intact.

The proponents of the National Security Act of 1947 intended that the Air Force would continue to obtain supply and service support from the Army. Despite this, the Air Force has worked diligently to become completely independent. In 1951-52, the Bonner committee, of which I was a member, held extensive hearings on military supply management and, as a result of the hearings and reports, the O'Mahoney amendment to the 1953 Military Appropriations Act called for the establishment of "an integrated military supply system." Some steps were taken by Secretary Lovett, particularly in setting up a coordinated medical supply activity known as the "Alameda medical-supply test."

This test, though successful, was discontinued despite the recommendations of the Hoover Commission and others who had studied it. More recently, the Department of Defense has set up "single-manager systems" for subsistence, clothing, medical supply, and petroleum products. This effort though apparently successful is being stubbornly resisted by the military departments who fear loss of autonomy through any steps that tend toward unification.

The last Congress passed the Department of Defense Reorganization Act of 1958, and included the so-called McCormack-Curtis amendment which gives the Secretary of Defense wide authority to operate supply and service activities through such an entity or entities as he deems appropriate to bring about economy and efficiency. Despite this broad authority, there has been but small progress in accomplishing what to me is one of the most fruitful areas for economy. I know of no one who has objectively studied this matter who has a different opinion.

It seems to me that the time is long past when the common inventories and operations of the military services should be brought under unified control so that existing stores are taken in account before additional purchases are made. As a matter of fact, we have expended at least \$150 million in developing a catalog system in order that this could be done.

I am sure you are aware that each military department spends hundreds of millions of dollars annually for the operation and maintenance of its own supply and depot system. Furthermore, the services compete against each other in many ways in the procurement of supplies, equipment, and personnel. Since most of the procurement is by negotiation the net effect of these methods is to accelerate an inflationary spiral in my opinion.

It seems to me that some forceful actions toward unification must be taken not only for the sake of defense itself but to relieve the economy of the inflationary pressures which are now being exerted upon it. Since the legislative framework appears to be adequate, I think that the executive branch is vulnerable in not vigorously pushing this matter. I cannot understand why the Budget Bureau condones this situation while it is simultaneously the management arm of the

President, is responsible for reorganizational plans, and has the primary duty of screening the various appropriation estimates within the framework of a balanced budget. It is the belief of many people on "the Hill" that the Bureau has become a prisoner of the Pentagon and that the Joint hearings on the military budget does not give the Bureau the control status it should have.

From what I can learn, the Budget Director is doing an excellent job and has the fortitude to do what is necessary. However, it is impossible for anyone to grasp the complexities of the Federal budget within a period of several years and he must rely upon his assistants. I think, however, that time is running swiftly and that some topside decisions must be taken in this area.

I am sending a copy of this letter to Mr. Stans and will appreciate any comments you or he may have with respect to this letter.

Sincerely,

THOMAS B. CURTIS.

JANUARY 10, 1955.

Hon. CHARLES E. WILSON,
Secretary of Defense,
Washington 25, D.C.

DEAR MR. SECRETARY: I was shocked to receive a letter dated November 18, 1954, from the Assistant Secretary of Defense T. P. Pike, Supply and Logistics, announcing the dissolution of the so-called Alameda medical supply test and the decision to continue operating medical supply separately by the Army and Navy and possibly by the Air Force as well.

In my opinion, this is directly contrary to the laws passed by the Congress in words, and certainly in intent. It is directly contrary to the statement of policy as expressed by President Eisenhower from time to time. In my judgment, this is one more instance where the Congress, in proper fulfillment of its constitutional authority, has written laws and the Military Establishment has sought to subvert these laws.

I appreciate that these are serious charges. In order to give you the basis for making these charges, I am setting forth the history of the Alameda test, and the Congress expressed interest in it as a test case of the overall problem of eliminating unnecessary duplication or overlapping in the fields of procurement, supply, transportation, storage, health, and research.

Before doing so, I want to emphasize that I have no doubt as to the sincerity of those in the Military Establishment who have made the decision to go against what I have stated, in my opinion, to be the clearly expressed will * * * and certainly the clearly expressed intent of the Congress. I have no doubt that they feel they know better than the Congress what is best for the armed services and what is the best for our country. Nevertheless, if we are to have constitutional government in this country, we must have the Military Establishment carrying out the laws passed by the Congress in accordance with the Constitution, both as to the letter and equally as to the intent. Anything else would be chaos. Certainly such insubordination within the Military Establishment itself would be handled with dispatch.

The Military Establishment has had full opportunity to present its thoughts and views to the committees of the Congress in hearings. The Military Establishment has many able spokesmen for its point of view among the Members of the Congress so that its point of view is fully considered. In spite of this, in its wisdom the Congress has by law and by expression of what was meant by the language of the law, decided contrary to the position advanced by the Military Establishment.

The reason I stated in my second paragraph that this is "one more instance" was because I had in mind the heart-rending attempts the Congress has made to have a single catalog system established for common-use items in the Military Establishment as well as other specific cases where attempts were made by congressional committees to see that the purpose and intent of the National Security Act of 1947 (as amended) providing for the unification of the services was carried out.

Here follows the history of the Alameda test as I see it. First, I might state it was my privilege to serve on the so-called Bonner Committee during the 82d Congress and we found that there was a great duplication and costly cross handling of medical and other common-type supplies between the service units.

We selected the medical supply field for study as it has only 8-10,000 items, uses only a few hundred million dollars worth of supplies per year but the Army and Navy each had five depots at that time with stocks turning very slowly.

Further, a joint agency bought the same items for each separate service. Fortunately, the Air Force continued under the Eisenhower-Spantiz agreements to get medical support from the Army though now they seem to be splitting here also. We reasoned that if two services can use common distribution, why in the name of sense can't three? Another reason for the selection of medical supply for a test was the fact that a usable catalog with common specifications and nomenclature has been in use for some time.

Our Report No. 658 issued June 27, 1951, and No. 2330 issued June 27, 1952, were critical of medical supply operations and called for eventual integration. On July 10, Deputy Secretary of Defense Lovett and the top supply officials from the services and the Munitions Board testified as to the findings and recommendations in Report No. 658. At that time, Mr. Lovett produced a directive dated 2 days before (July 17, 1951) on the subject of: Basic Policies Governing the Department of Defense Supply System. Paragraph 5(c) of the directive stated:

"(c) Priority study shall be given to the feasibility of assigning to a single military department the responsibility for procurement, distribution, including depot storage and issue for classes of common items of supply and equipment, and depot maintenance of such equipment. Medical supply items shall be the first category to be studied."

It should be stated that a battle raged from July 17, 1951, to March 1952 over the establishment of the Medical Supply test. The Navy, in particular, was unhappy at this step toward "unified distribution." The Navy has, as you know, preached the gospel of "three services separately administered" and that all supplies and services must be "responsive to service command" despite the fact that everyone should know by now that we must have unified commands in the theaters with supply responsive to that kind of command.

The Korean emergency placed a heavy burden on the Army Medical Supply system with the Oakland, Calif., depot at the end of the Continental pipeline. But the Navy Medical Supply system with a depot across the street from the Army's in Oakland got small impact. Commonsense without prolonged study should dictate to anyone that the two pipelines could have been connected in order to make all medical supplies "responsive to the unified command" in Korea.

After more chapters and verses than any innocent taxpayer can imagine, the medical test was started. The committee knew of the bitter Navy opposition and went to Alameda (where the Army had moved meantime for the test) to see for ourselves how it was working. We found that the Army was putting all out to make it work and it was very successful. The Air Force was pleased at the service it was getting but the Navy was glum.

May I add that the test was operated under adverse ground rules. Each service owned part of the stock, requiring triple accounting. Admiral McNeil testified later that one revolving or stock fund should have been set up. But it never was. The excellent Syracuse study on medical supply recommended the same (one revolving fund) and here again commonsense should dictate such action. Public Law 216 (Title IV) was enacted 3 years before for just such a purpose. That is, to improve financial control and management.

After viewing with alarm the committee's pressure to extend the successful medical test across the board to the other depots and end up with perhaps 3 depots in place of 10 with fast-moving stock, the Navy came up with the idea of setting up functional supply systems, i.e., each service to have its own integrated supply system. This would combine common stock, theoretically, in each service. So Supplies and Accounts took over Navy Medical Supply to head off what the committee was doing. Budget Bureau officials forgot their responsibilities and went along.

After some 2½ years of operation, during which time the Korean theater was successfully served by the unified Alameda Medical Supply operation, it was decided to break up the test and not extend it across the board.

To my mind it was not only a sad mistake to dissolve the only effective effort made by the DOD toward integration of common-supply distribution but it was a flagrant violation of the intent of the National Security Act, as amended. As late as last summer, the Army testified before the House Appropriations unit that the test was to be extended. Those of us who know the Navy, knew better.

You will recall that the original National Security Act of 1947 (Public Law 253, 80th Cong.), "provided for the authoritative coordination and unified direction of the services under civilian control but not for their merger. And that

the Secretary of Defense under the direction of the President was directed, in section 202(a) (3), to -

"(3) Take appropriate steps to eliminate unnecessary duplication or overlapping in the fields of procurement, supply, transportation, storage, health, and research."

The 1949 amendments to the National Security Act (Public Law 216, 81st Cong.) following the Hoover Commission Report were designed to strengthen the original act. Section 2 thereof provided:

"Sec. 2. In enacting this legislation, it is the intent of Congress to provide a comprehensive program for the future security of the United States; to provide for the establishment of integrated policies and procedures for the departments, agencies, and functions of the Government relating to the national security; to provide three military departments, separately administered, for the operation and administration of the Army, the Navy (including naval aviation and the United States Marine Corps), and the Air Force, with their assigned combat and service components; to provide for their authoritative coordination and unified direction under civilian control of the Secretary of Defense but not to merge them; to provide for the effective strategic direction of the Armed Forces and for their operation under unified control and for their integration into an efficient team of land, naval, and air forces but not to establish a single Chief of Staff over the Armed Forces nor an Armed Forces general staff (but this is not to be interpreted as applying to the Joint Chiefs of Staff or Joint Staff)."

The amendment to the new declaration of intent included the provision for "three departments, separately administered."

The specific language authorizing the SECRETARY under section 202(a) (3) of the 1947 act to "take steps to eliminate unnecessary duplication or overlapping in the fields of procurement, supply, transportation, storage, health, and research" was omitted in the 1949 amendments as it was argued such language was unnecessary in the light of the broadened authority proposed to be conferred generally on the Secretary. (See p. 16, Bonner Overseas Report No. 1904, 82d Cong., 2d sess.)

"The National Security Act Amendments of 1949 took account of several of the criticisms and of certain recommendations in the report of the Hoover Commission. The authority of the Secretary of Defense over the three military departments was somewhat strengthened and clarified. Likewise the role of the Munitions Board and its Chairman were pointed up and the Board was established more precisely as a staff arm of the Secretary.

"Nevertheless, the 1949 legislation again comprised between opposing concepts of proper organization in the Military Establishment. What was taken away with one hand was given back with the other. Although the departmental Secretaries were deprived of Cabinet rank, the separate status of the departments was not only reaffirmed but reinforced in several particulars. As if to remove any doubts on that score, the amendments added to the declaration of policy of the original act the intent of Congress 'to provide three military departments, separately administered.'

"An interesting incident in the legislative consideration of the National Security Act Amendments of 1949 illustrates the statutory setbacks to unification as well as the gains. The original act, in section 202(a) which created the Office of Secretary of Defense and prescribed the Secretary's duties, directed him, among other things, to 'Take appropriate steps to eliminate unnecessary duplication and overlapping in the fields of procurement, supply, transportation, storage, health, and research.' The Senate bill introducing the 1949 amendments, in seeking to strengthen and clarify the Secretary's authority, proposed that the above-quoted provision in section 202(a) be amplified as follows:

"Taking of appropriate steps, including such coordination, transfers, and consolidations as may be necessary, to eliminate unnecessary duplication or overlapping in the fields of procurement, supply, transportation, storage, personnel, health, research, and in such other fields, as he may deem proper. * * *

"Pentagon lawyers assured the House Armed Services Committee that the Senate proposal was unnecessary in the light of the broadened authority proposed to be conferred generally on the Secretary. Accordingly, the entire provision, both of the Senate bill and of the original act, were struck out by the House committee, the deletions were accepted in conference. The law now merely presumes, without specifically stating, that the Secretary will take steps to eliminate unnecessary overlapping and duplication."

The Intensive Bonner Committee investigations at home and abroad clearly proved the terrible extent of overlapping, duplication, and waste in the common supply field as the Air Force acquired independent status as provided by the Security Act as implemented by the Eisenhower-Spantz agreements.

General Eisenhower told the committee at Paris (November 24, 1951):

"You have asked me what I had in mind, as far as common supplies are concerned, when General Spantz and I made what you refer to as the Eisenhower-Spantz agreement several years ago when I was Chief of Staff of the Army. That's a broad question, but I believe I can give you a simple answer by saying that when General Spantz and I served together during the last war we frequently discussed ways and means of reducing what we believed to be a waste of supplies and of manpower through duplication of effort between the services. I reached the conclusion, and I am sure that he did also, that something had to be done to provide a system under which each service and each force could have all that it needed for its operation without a lot of duplicating hospitals, depots, and other supply overhead. I felt that much could be done to improve the situation that existed in the services at the end of the war. Consequently, when Spantz and I talked things over in Washington after the war, we agreed that the policy on which the Army and Air Force supply and service arrangement should be based would be that of common service to the greatest possible extent. The so-called Eisenhower-Spantz agreement was intended to implement that agreement on basic policy."

He further stated:

"* * * I can illustrate some of the things I had in mind by giving you a few examples. Take blankets and bed sheets, for example. I saw no reason why there should be numerous types, sizes, and specifications for those things. I believed that a good blanket could be bought by the Department that would serve the needs of all Departments, and so could a good sheet * * * Mops, brooms, soap, and other ordinary supplies are also good examples. * * * I could see no good reason why bread baked in an Army bakery could not be eaten by Air Force men, and vice versa. This same reasoning can be applied to the majority of commonly used equipment, such as rifles, et cetera."

Again he stated:

"I feel what is really needed to accomplish what you gentlemen are seeking is to vest in the Secretary of Defense sufficient authority and responsibility to permit him to accomplish whatever degree of improvement in the efficiency and economy of our service and supply systems as is now necessary or that becomes necessary as time passes."

With respect of the need for unification of logistics in the theaters, the general stated:

"* * * I will say that I am convinced that more unification is needed in logistical matters in all theaters." "To my mind, the senior United States commander in any theater * * * be he of the Army, Navy, or Air Force * * * should have responsibility and powers for the overall coordination of logistics and the exercise of all possible economies in common items or common supply functions."

At the time the general made these statements (November 24, 1951), which made sense to the committee, the military services were still wrangling over the establishment of the common medical supply test as directed by the Secretary of Defense 4 months earlier.

On June 9, 1952, Mr. Bonner, chairman of the committee, introduced a bill, H.R. 8130, which was designed to promote economy and efficiency through certain reorganizations and the integration of supply and service activities within and among the military departments. This bill contained many important provisions, including:

"Sec. 501. (a) There shall be in the Department of Defense an Under Secretary of Defense, who shall be appointed from civilian life by the President, by and with the advice and consent of the Senate:

"Sec. 502. (a) The Under Secretary of Defense shall advise and assist the Secretary of Defense in preparation and execution of a comprehensive program to integrate supply and service activities within and among the military department, and shall perform such other duties as are prescribed by this title.

"(b) Subject to the authority, direction, and control of the Secretary of Defense, the Under Secretary shall—

"(1) develop standardized procedures and forms for supply and service functions;

"(2) eliminate duplication and overlapping within and among the supply activities of the military departments in the fields of production, procurement, warehousing, and distribution;

"(3) establish and operate depots for common items and other common supply and service installations throughout the United States;

"(4) develop unified logistics organizations overseas;

"(5) establish and operate a program to systematize scrap recovery, redistribution of excess materials, and surplus disposal, and coordinate such program within the Department of Defense and with those of other departments and agencies of the Government having responsibilities in these fields; and

"(6) develop plans for recruitment and training of a professional corps of supply personnel within the Department of Defense."

Meanwhile, the committee was in conference with certain Senate Leaders who were also anxious to bring about "defense with economy" by the elimination of fat in the form of "overlapping, duplication, and waste."

Senator Douglas gave notice to the Senate that he intended to offer H.R. 8430 or its substance as an amendment to the pending DOD appropriation bill.

Senator Saltonstall stated:

"When the unification bill was passed in 1947, the amendment which the Senator is now proposing was considered. It was one of those steps which the committee felt it did not want to take at that time. It felt it should not go that far in concentrating so much power in the Secretary of Defense. That was one of the problems which Secretary Forrestal had confronting him. Times have changed, and conditions have changed. Personally, I think there is considerable merit in what the Senator from Illinois is proposing. I want the record to show that I join with the Senator from Texas in suggesting that the Senator introduce a bill on the subject in January, and pursue it, so that the Unification Act may be amended somewhat along the lines the Senator from Illinois proposes. I believe it should be amended."

Senator O'Mahoney, who was not only handling the appropriation bill, but was chairman of the Joint Committee on the Economic Report and thus dealing with both sides of the "defense-expense" coin stated:

"I wish to say to the Senator from Illinois that the Subcommittee on Defense Production was unanimous in its feeling that the principle of the Bonner amendment should be enacted into law. But the committee was aware of the fact that it could not be enacted into law on an appropriation bill. I want the Senator to know that personally I have consulted with the Secretary of Defense and the Director of the Bureau of the Budget. I spoke to both of them and told them that the economy measure must be carried through. At the same time, I recognize the fact that the Committee on Armed Services of the Senate and the House are entitled as a matter of right to have the opportunity of examining into the far-reaching changes which would be made in unification."

So, as a compromise measure, section 638 was inserted in the DOD appropriation act for fiscal year 1953. This act provides:

"(a) Notwithstanding any other provision of law and for the purpose of achieving an efficient, economical, and practical operation of an integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operations or functions, no officer or agency in or under the Department of Defense, after the effective date of this section, shall obligate any funds for procurement, production, warehousing, distribution of supplies or equipment or related supply management functions, except in accordance with regulations issued by the Secretary of Defense.

"(b) This section shall be effective 60 days after the approval of this Act."

The intent of the enactment, which is permanent legislation, as stated in the Senate report is to develop an "integrated supply system":

"The committee believes that great savings can be made by improved integration and management of the military supply system. To this end it recommends addition of section 636 (638) to the bill, imposing a direct and specific duty on the Secretary of Defense to achieve such improvement at any early date.

"It is recognized that all the desirable changes cannot be accomplished in the 60-day period within which regulations must be issued. However, it is anticipated that, within that period, new interim regulations can be promulgated which will state the general principles to be followed, effect certain of the more obvious improvements, and assure that no additional independent or expanded supply facilities are created during development of the definitive regulations.

"When the next Congress convenes the Department of Defense should present a program, based upon regulations in effect, which will speedily eliminate the duplications and 'historical accidents' that recur and exist in the present system of procurement, warehousing, and issue of supplies and equipment.

"Under the new system, it should be impossible for two competing facilities to be set up (or to continue to exist) in the same area for the same purpose as determined by the Secretary of Defense. Service facilities for maintenance of equipment such as motor shops, laundries, etc., should be integrated to serve all departmental requirements in the area. Special attention should be given to the procurement, production, distribution, warehousing, maintenance, and issue of common use items such as clothing, food, medical supplies, and building materials, to minimize stocks, handling, transportation, and related supply management activities. Wherever possible such items and the method of handling them will be made uniform throughout the Department of Defense to facilitate such integration. Where different stock levels exist in various parts of the Department, it is expected that the lowest level will be applied to the whole Department in the absence of a compelling justification for special treatment, which justification will be made to the appropriate committees of the Congress.

"It is recognized that the administration of the program outlined above will require some changes in the organization and staffing of parts of the Department of Defense, including the office of the Secretary of Defense. To the extent possible under existing laws this should be done within the powers and personnel ceilings presently available to the Secretary of Defense, and it is expected that necessary action will be taken immediately so that the program can be instituted without delay. Emphasis should also be placed on civilian personnel in this interservice cross-the-board work of the business organization of the Department since they can provide continuity and can approach these problems unencumbered by loyalty to the traditions and practices of one particular corps or service."

On September 25, 1952, General Eisenhower, in a speech at Baltimore, stated: "I want to talk with you tonight about the defense of our country. I want to talk with you about getting the most defense at less cost with least delay.

"The real problem is to build this defense with wisdom and efficiency. We must achieve both security and solvency. In fact, the foundation of military strength is economic strength. A bankrupt America is more the Soviet goal than an America conquered on the field of battle. The 158 million Americans whose lives and livelihood are at stake are entitled to and must have the plain truth. I propose to give it to them.

"Here are the three personal convictions that I hold to be true:

"First, our defense program has suffered from lack of far-sighted direction.

"Second, real unification of our Armed Forces is yet to be achieved.

"Third, our defense program need not and must not push us steadily toward economic collapse.

"* * * What I do mean to criticize is routine in planning and operation, failure to establish clean-cut line of authority, and failure in preparatory work to combine industrial and military leadership. * * * Resulting frenzied expansion has meant disorder and duplication and waste. It has meant an attempt by our Air Force to buy 20,000 super deluxe chairs at \$10 above the standard model. It has meant the Army buying enough front-axle gaskets for jeeps to last a full century.

"This pattern has been bad enough in the past. In today's world of continuing tension, it is intolerable.

"Against this background we must face the overriding issue of security with solvency. We must analyze the details of that issue specifically, straightforwardly and promptly. For next November, the American people are electing leaders not for just another ordinary term, but for years of decisive destiny.

"All that I have said about how to save money and avoid waste in the weapons program applies with equal force to other parts of the defense program.

"This brings us to the supremely important matter of unification of the Armed Forces.

"When I became Chief of Staff, upon my return from Europe in November of 1945, I felt that all our war experience had rendered obsolete the defense organization then existing. I was convinced then, as I am today, that effective coordination of the services in war requires central planning in time of peace.

This is the essence of unity in the Armed Forces. That unity must also extend to the procurement and administration of all the costly material and paraphernalia of modern warfare. It was the hope and expectation of all of us who had worked to achieved the passage of the National Defense Act of 1947, that this kind of unity was in the making.

"This has not proved to be the case. Such unity as we have achieved is too much form and too little substance. We have continued with a loose way of operating that wastes time, money and talent with equal generosity. With three services, in place of the former two, still going their separate ways and with an overall defense staff frequently unable to enforce corrective action, the end result has been not to remove duplication but to replace it with triplication.

"All this must be brought to as swift an end as possible. Neither our security nor our solvency can permit such a way of conducting the crucial business of national defense.

"Our task, however, goes still further than this. We must critically review the political policies governing our military program; and we must review that military program itself in all its significant details. To this end I now make two major proposals.

"The first is this: At the earliest possible date next year, the new administration should create a commission of the most capable civilians in our land to restudy the operations of our Department of Defense. These men and women should, of course, be specifically qualified for their tasks. They should, I believe, be drawn from both parties, so that all matters of national security may clearly be placed beyond party politics. These men and women should be assisted by the ablest officers available from all services—Air Force, Army, Navy, and the Marine Corps."

I was surprised and shocked to learn of the dissolution of the Alameda medical supply test and a reversion to the old system. I could not imagine why one medical supply system was not established under one stock fund to serve the entire military or even the whole Government. I cannot understand why the clear intent of Congress is ignored and superseded by the subjective philosophies and regulations of DOD officials.

It should be noted that the law, the National Security Act as permanently amended by the O'Mahoney amendment and as specifically interpreted in Senate Report No. 1861 stated, "Under the new system, it should be impossible for two competing facilities to be set up (or to continue to exist) in the same area for the same purpose as determined by the Secretary of Defense. * * * Special attention should be given to the procurement, production, distribution, warehousing, maintenance, and issue of common-use items such as clothing, food, medical supplies, and building materials, to minimize stocks, handling, transportation, and related supply management activities. Wherever possible such items and the method of handling them will be made uniform throughout the Department of Defense to facilitate such integration."

I have carefully read Assistant Secretary T. P. Pike's Supply and Logistics, DN letter of July 27, 1954, relative to current supply philosophy. Needless to say, this philosophy is the opposite of that stated by Secretary Lovett's directive of July 17, 1951. It is also in my opinion a direct contradiction of the intent of the law. Certainly it violates the fine statements of President Eisenhower. Furthermore, the issuance of this statement of policy before Messrs. Pike, Higgins, and Drake reviewed and evaluated the test in early November, condemned it in advance.

It is my understanding that it will cost from \$700,000 to \$1 million to move the stocks and personnel, and make the other changes required to break up the central operation. If you have a more accurate cost I should like to have it detailed.

In view of the above, I hope that you will personally look into this pilot subject which can be of such basic importance to our economy and to our defense. I may add that it is my intention to take this matter on a continuing basis to the Congress and to the public.

Sincerely,

THOMAS B. CURTIS.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF THE DIRECTOR, BUREAU OF THE BUDGET,
Washington, D.C., July 16, 1959.

Hon. JOHN W. McCORMACK,
House of Representatives,
Washington, D.C.

DEAR MR. McCORMACK: I appreciate very much your letter of July 13, enclosing Assistant Secretary McGuire's report on progress and plans in the supply and logistics field.

You may be sure that we will review these statements carefully. I have a strong feeling that there is considerable opportunity for improvement in the way we go at these matters.

With kind regards, I am,
Sincerely,

MAURICE H. STANS.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington D.C., July 13, 1959.

Hon. MAURICE STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: I enclose a copy of a letter I have received from Assistant Secretary of Defense, the Honorable Perkins McGuire, together with a copy of his letter to Senator Douglas and a copy of a memorandum therein, together with a copy of a letter I have sent to Assistant Secretary McGuire.

I think that Assistant Secretary McGuire is to be highly complimented in trying to bring about efficiency and economy, particularly in his jurisdiction. However, I know that obstacles have been thrown in his way in the past and while he has made headway, it is only under the most difficult conditions.

I know that great headway could be made if the provisions of my amendment to the 1958 National Security Act were effectively implemented. This would bring about greater efficiency in procurement and services and also produce savings of tremendous sums of money, which savings could be utilized for a greater defense.

I know in talking with you several weeks ago that you were commencing then to have an appreciation of the opportunity of improvement in management in the Department of Defense.

I suggest you study, very carefully, the enclosures I received from Assistant Secretary McGuire and that the Bureau of the Budget cooperate as fully as possible with him in his efforts to economize in the fields of procurement and services.

With kind regards, I am,
Sincerely yours,

JOHN W. McCORMACK, Majority Leader.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 19, 1959.

Hon. JOHN W. McCORMACK,
House of Representatives,
Washington, D.C.

MY DEAR MR. McCORMACK: Thank you for your letter of May 6, calling attention to the fact that the McCormack amendment not only authorizes centralized management of common-use items of supply but also authorizes the Secretary of Defense to take appropriate action with respect to other supply problems.

We recognize that the McCormack amendment is closely related to the points raised by Congressman Brown in his thoughtful letter of February 21, to which we are giving a great deal of attention.

Sincerely yours,

MAURICE H. STANS, Director.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., May 21, 1959.

HON. MAURICE STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: I am in receipt of your letter of May 19, 1959, concerning the McCormack amendment to the Department of Defense Reorganization Act of 1958 and its implementation.

I shall appreciate receiving detailed information as to your program as your studies progress. There is widespread interest in this subject both in the Congress and throughout the country, and I shall place this exchange of correspondence in the Congressional Record and give your response the same forum unless you believe there are reasons for not so doing.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., May 6, 1959.

HON. MAURICE H. STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: Congressman Clarence J. Brown has kindly furnished me a copy of your letter of March 17, 1959, which was in response to his letter of February 21, 1959, concerning the possibility of improved management with respect to supply and service activities in the Department of Defense.

I note that you make reference to the so-called McCormack amendment to the Department of Defense Reorganization Act of 1958 (sec. 202(c) (6)) and state that the amendment "authorizes the Secretary of Defense to centralize the procurement of common use items whenever he determines that such action would be 'advantageous to the Government in terms of effectiveness, economy, or efficiency.'"

While the above statement is correct I wish to call to your attention the fact that the amendment which I introduced authorizes the Secretary of Defense to take effective action with respect to "any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate."

I bring this matter to your attention since there are a number of service activities in addition to common supply activities which, in the opinion of a great many people including myself, should be thoroughly studied and appropriate action taken thereon to bring about more economy, effectiveness, and efficiency in their operation.

In this connection I refer you to the statement I made on the floor of the House when the Department of Defense Reorganization Act was considered. (See Congressional Record of June 12, 1958, p. 9927.)

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

REPORTED SAVINGS IN THE DEPARTMENT OF DEFENSE SUPPLY SYSTEMS

Extension of Remarks of Hon. John W. McCormack of Massachusetts in the House of Representatives, Wednesday, March 25, 1959

Mr. McCORMACK. Mr. Speaker, on February 18, 1959, I placed in the Congressional Record (p. 1235) a letter which I had addressed to Hon. Neil H. McElroy, Secretary of Defense concerning conflicting testimony from officials in the Department of Defense as to the effectiveness, efficiency, and economy of the so-called single manager plans for common supply in the services.

In my extension, I am placing a reply which Secretary McElroy authorized the Honorable Perkins McGuire, Assistant Secretary of Defense—Supply and Logistics—to send to me. The letter follows:

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., March 10, 1959.

Hon. JOHN W. McCORMACK,
Majority Leader,
House of Representatives.

DEAR JOHN: The Secretary of Defense has requested me to reply to your letter of February 10, 1959, concerning the effectiveness, economy, and efficiency of the single manager plan.

I agree that sufficient time has now elapsed to permit a factual evaluation of the single manager program and such an evaluation is in process at present. We are examining the single manager program not only from the viewpoint of its efficiency and economy in peacetime, but also to reassure ourselves as to the mobilization and wartime capabilities of the system.

It is impossible to assess precisely the extent to which savings made through the reduction of inventories and operating expenses are directly derived from the single manager concept as compared to other improvement programs. However, our studies indicate that in the commodity fields presently covered by single management encouraging economies are being effected. For example, in the subsistence, medical, and clothing and textile commodities, we have been able to effect a reduction of about 600 personnel at an estimated annual payroll cost of \$3 million. Through the development of integrated distribution patterns, wholesale stocks of single manager commodities have been withdrawn from 55 of the storage locations previously occupied. Associated with this streamlining of the distribution systems, the single managers have been able to reduce the amount of wholesale storage space devoted to these commodities by 4 million square feet. By consolidation of inspection and test facilities, they are realizing, in addition, a net annual savings of \$2,280,000.

During the 2 years of single manager operations in these same commodities, actual sales have amounted to \$1,950,451,000 compared to procurement of \$1,808,815,000. The excess of sales over procurement has been reflected in the increased cash position of the single managers and has, in turn, contributed significantly to reductions in new obligating authority in the President's budget as a result of transfer actions.

While we do not consider these economies to be spectacular, we believe that they are indicative of steady progress. Perhaps the most promising potential economies associated with the single manager concept arise from opportunities it provides for eliminating concurrent buying and selling and for diminishing back-hauls and cross-hauls through integrated distribution operations. Although they are not precisely measurable, it is reasonable to conclude that economies from these sources have been achieved. During the initial phases of single manager operations these economies may have been offset to an extent by expenses related to adjustment to new distribution patterns, but once adjustments to desired distribution patterns have been completed, significant economies should be possible on a continuing basis.

We have established criteria for determining additional commodities amenable to the single manager technique and have presently in progress a study to determine the feasibility of establishing a single manager for general supplies.

Your apprehension regarding the difficulties involved in embracing the operations of two single managers within a single depot is not warranted on the basis of our experience to date. At present we have as many as three single manager systems representing two services operating out of a common storage location with very encouraging results.

We do not, of course, regard the single manager program as a panacea. We view it simply as one element of a comprehensive program for the improvement of supply management of our inventories. Such a comprehensive program which integrates supply management and financial management improvements is in operation and is producing positive results. During fiscal year 1958, supply system inventories of the Department of Defense decreased by almost \$3 billion in value.

The tremendous book value of total personal property holdings of the Department of Defense which, as you point out in your letter, aggregates \$120 billion as of June 30, 1958, must be of continuous concern to all of us. For a full appreciation of the character of our inventory and the purposes for which it is held certain facts should be enumerated and evaluated.

Of the total personal property investment of the Department, over \$50 billion or more than 40 percent is represented by the book value of whole aircraft and

ships. Another \$17 billion or about 14 percent is invested in tanks, other tactical vehicles, production equipment, and operating equipment of all kinds. An additional \$42 billion or 35 percent is invested in technical repair parts, components, and assemblies which are required to support the peacetime operation and wartime readiness of our combat equipment. The balance of the investment which approximates 11 percent consists of equipments and supplies which have reached the end of a useful economical or military life span and are in the process of disposal, or is invested in general consumable supplies such as fuel, clothing, food, and medical stocks. The character of this investment reflects the needs and the missions of the Defense Department.

The value of the personal property investment on our books is, in general, expressed in acquisition cost. Over 70 percent of the investment is in a used condition with no consideration given, in terms of book value, to the age or condition of the investment. For example, the active and reserve fleets of the Navy are included at cost in the total investment value as the active and reserve aircraft of all services. As you know, in commercial practice such equipments are depreciated in value each year in accordance with the projected useful lifespan and the net book value at any time reflects a realistic appraisal of the net investment. This is not the practice in the Government. The stated book price of our investment is not a true measure of the current value of military personal property. Equipment which we are in the process of disposing of as scrap because of its age and condition is still carried at acquisition cost on our books.

The foregoing explanation is provided for a better understanding of the overall problem of improving management of personal property inventories. Within this framework we concur completely that overlapping, duplication and wasteful practices cannot be tolerated and positive steps are being taken to eliminate unnecessary duplication and waste. Recently, the Armed Forces Supply Support Center has been organized. The establishment of this center pulled together in one organization the management of the functions of cataloging standardization, material utilization and a capability of dealing aggressively with inter-service supply problems. Other steps are being taken, such as consolidation of surplus sales offices, bringing together several retail supply system offices of the services at one location, and making available for transfer among the military Departments, without reimbursement, assets of the military services above approved peacetime and mobilization reserve levels. The latter policy conforms with previous discussions between you and Secretary McGuire.

We are preparing a detailed statement of our progress and plans concerning the implementation of section 202(c)(6) of the Department of Defense Reorganization Act of 1958. We will be pleased to furnish you a copy of this statement. We feel that you will be particularly gratified to note the improvements that are being made.

Sincerely,

PERKINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
February 18, 1959.

Hon. NEIL H. McELROY,
Secretary of Defense,
Washington, D.C.

DEAR MR. SECRETARY: I note with interest the letter to you of February 10, from Hon. John McCormack, majority leader.

You know of my conviction about the importance of further unifying the Department of Defense, creating a defense structure which expresses progress in this nuclear space age, as against tradition.

With that in mind, I would appreciate your sending me a copy of your reply to the majority leader.

With best wishes,
Sincerely,

STUART SYMINGTON.

DEPARTMENT OF DEFENSE MULTIBILLION DOLLAR SUPPLY SYSTEMS

(Extension of Remarks of Hon. John W. McCormack, of Massachusetts, in the House of Representatives, Wednesday, February 18, 1959)

Mr. McCORMACK. Mr. Speaker, during the past decade, there have been a number of objective studies, investigations, and reports by qualified people which point to the need for better management of the many common supply and service systems in the Department of Defense, which have stock valued at \$40 billion. Within the past year, the Comptroller General of the United States has issued a number of reports which show beyond doubt that much needs to be done to improve these systems.

In 1951 the Secretary of Defense ordered a study to test the feasibility of one service handling medical and dental supplies and equipment for all services. The test, though successful, was terminated in November 1951, over strong protests of many Members of both Houses of Congress and others. A year later, the Secretary of Defense started similar tests along broader lines to handle subsistence, clothing, medical, and petroleum products under a unified approach called single manager plans.

Numerous statements by officials in the Department of Defense during the past 2 years indicate that the single manager plans point to much-needed progress. However, Secretary McNell seemed to testify to the contrary on February 10, 1959, before the Joint Economic Committee. I have, therefore, requested Secretary McElroy to clarify the matter. My letter to him on February 15, 1959, is as follows:

"CONGRESS OF THE UNITED STATES,
"HOUSE OF REPRESENTATIVES,
"Washington, D.C., February 16, 1959.

"Hon. NEIL H. McELROY,
"Secretary of Defense, Department of Defense, Washington, D.C.

"DEAR MR. SECRETARY: I have reviewed the testimony of Assistant Secretary McNell before the Joint Economic Committee on February 10, 1959, concerning the effectiveness, economy, and efficiency of the single manager plans for subsistence, clothing, medical, and petroleum products.

"It is disturbing to note the wide disparity in Secretary McNell's testimony with that of other Department of Defense witnesses before congressional committees in recent years.

"I would think that sufficient time has elapsed since the plans were initiated to permit the Department of Defense to issue a factual evaluation of them. The enormous overlapping, duplicative, and wasteful supply systems in the numerous divisions of the Department of Defense contain stocks valued at \$46,585,403,000 as of June 30, 1958, according to figures you have furnished the Government Operations Committee of the House.

"Even a casual review of the distribution and ownership of the staggering total reveals the excesses and duplications within and among the departments. I might add that this inventory of \$46 billion is more than the entire 1960 budget for the Department of Defense, is over 60 percent of the national budget of \$77 billion and is almost one-sixth of the national debt. Yet the supply systems inventories of \$46 billion are only a portion of the worldwide Department of Defense personal property inventories of \$120 billion from which a \$10 billion surplus disposal program is expected in fiscal 1960.

"Furthermore, the many hearings of congressional committees, the Hoover Commission reports, studies of the National Chamber of Commerce, numerous reports of the Comptroller General of the United States and others attest to the degree of waste and the need for much better management in these areas in the Department of Defense. There can be little doubt about it.

"This is no new idea, Mr. Secretary, which has been provoked by recent events. The O'Mahoney amendment to the Department of Defense Appropriation Act, 1953, called upon the Secretary of Defense to develop an integrated supply system. Many Members of Congress from both Houses and parties sponsored the measure, and some early progress was made in implementing it.

"After the termination of the Alameda medical supply test, which was a single-manager plan, I wrote to your predecessor on October 24, 1955, and stated, in part:

"The whole story of the Alameda test was detailed to you in Congressman Thomas B. Curtis' 13-page letter of January 10, 1955. Certain of the Hoover re-

ports confirm the conclusions of the congressional reports and enactments as to the need for more integration among the military services with respect to common supplies and services and as to the necessity of following applicable laws and regulations.

"As I view the situation, Mr. Secretary, not only is the basic problem of constitutional government involved, but many other issues of real concern to the American people. I will comment briefly on some of them.

"The facts are conclusive that our educational facilities—though basic to defense—need great assistance. Large sums are required for the development and conservation of basic natural resources. Billions are needed for highways and public works. Costly outlays for fundamental and applied research are a must if we are to keep ahead in the technological race. Our health institutions are not in the state we desire. Oppressive taxes should be reduced, especially for the low-income groups. The budget requires balancing in its turn and the ever-growing national debt reduced.

"As you know, I am, and have always been, an advocate for a strong national defense upon which to support a foreign policy. It is also essential to our survival. I will not be beguiled into laxity by the palliative tactics now emanating from the Kremlin. No one dares be. I believe that our defenses and basic institutions should be strengthened in every possible way for the long pull ahead.

"But the evidence is conclusive that the overlapping, duplication, and waste is of such magnitude in and among the military services as to make possible enormous savings, with no loss of efficiency or military effectiveness, and thus release funds badly needed for the objectives listed above."

Since that date our fiscal and defensive positions have, in my opinion, worsened. The national debt continues to grow and the budget, if balanced, as some contend, is from the bookkeeping point of view. It does not provide for investment expenditures in many fields.

It was for these reasons that I sponsored the amendment to which you agreed in the Department of Defense Reorganization Act of 1958 empowering you to "provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as [you] deem appropriate." I realize that this statute has been in effect for only 6 months, but the single-manager plans have been operating for a considerable period of time.

I will appreciate an authoritative evaluation from you as to the success of the single-manager plans and what is programed for the future as to other common classes of supply and service functions. I might add that it is not my contention that the single-manager plans are the ultimate. I can visualize that it may prove to be impracticable to have two or more single managers operating in the same depot under different departments, and that something more general may be required. However, it does seem apparent that steady progress must be made.

This is a subject of wide interest, so I will insert this letter in the Congressional Record and will afford your reply the same consideration.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.C., June 23, 1957.

Hon. JOHN W. McCORMACK,
House of Representatives.

DEAR Mr. McCORMACK: Thank you for your letter of May 3, 1957, transmitting a copy of the May 2 issue of the Congressional Record which contains your remarks to the House of Representatives on the 1958 budget, with particular reference to the original O'Mahoney amendment, section 638 of the Department of Defense Appropriations Act of 1953. I note that you have sent similar information to Secretary Wilson as well as a letter suggesting that my response to your remarks in the Record be included in a subsequent issue. Such inclusion is quite satisfactory. I appreciate your courtesy in permitting me some delay in responding to you.

On behalf of the Department of Defense, I welcome the opportunity to furnish you and your colleagues information on points you have raised with respect to this Department's compliance with the O'Mahoney amendment. First let me state that we enthusiastically support the purposes of this amendment. We also share your conviction that economies and efficiencies have, can, and must continuously be effected in providing good supply management within the Department of Defense. This, we feel, is the obvious intent of the original O'Mahoney amendment.

It is fully understandable that varying points of view exist as to how supply management improvements can be brought about. Although we have recognized our responsibility for doing this job, we have always welcomed the views of other authorities and the suggestions of all those who sincerely desire to assist us in these complex matters.

Taking economy and efficiency to be the real objectives of good supply management, they must be applied to each step we take in formulating and clarifying policy actions affecting our supply operations. Because of the tremendous size and scope of our supply operations and the vital role they play in the Military Establishment, it is our considered view that achieving good supply management cannot be confined to a single formula or technique. Centralized procurement, for example, is not the best and only solution in every situation, just because it proves to be the best method in an applicable case. We must not seek uniformity simply for the sake of uniformity. Neither should we use solely the technique of integration unless it will produce efficiency and economy. We favor integration of supply management efforts wherever we can obtain improved performance with economy and have demonstrated our acceptance of this technique in some of our programs reviewed later in this letter.

Looking at supply management problems in this light, we feel we have made progress in carrying forward the intent of the O'Mahoney amendment.

To a large extent our supply management problem, from both a policy and operational standpoint, falls in the category of those common-use-type items where great quantities and varieties of material are moving through the supply pipeline from producer to ultimate user and in the common-use types of services. It is in this area, as you will recall, that the Hoover Commission directed much of its attention in reviewing Department of Defense operations. It follows that our efforts have been directed toward improvements in this area. We feel we have taken many steps and accomplished a great deal toward eliminating overlapping and duplication of supply operations among and between the military services. Here are a few of the more important Defense supply programs which have been developed, not only by our desire to improve these business operations but also having in view the objectives as expressed in the O'Mahoney amendment.

SINGLE-MANAGER SYSTEM

As you know, we have developed and are implementing the single-manager system of management of a number of common commodity areas and common services. This management technique is aimed directly at improving the effectiveness and economy of supply and services as well as eliminating duplication of effort in these areas among the military services.

Under the single manager plan, as applied to a commodity, the Secretary of one military department is responsible for all Department of Defense supply management functions for a designated class of commodities, from research and development, procurement, stock control, financial management, distribution, issue, through disposal. This system establishes a single wholesale stock of the commodities for all military uses centrally controlled by the single manager. It eliminates duplicate pipelines and wholesale storage, minimizes cross-hauling, and promotes effective utilization of stocks, services and facilities. In its operation, the single-manager system incorporates all of the beneficial aspects of the Alameda test, and goes far beyond the authority vested in the Army during that test. In the commodity field we have established single-manager assignments in the fields of clothing and textiles, medical materiel, subsistence, and to a limited degree in petroleum products. These assignments involve more than 45,000 items.

In single-manager assignments for common services, the designated military departmental Secretary exercises a like measure of single control of such services to meet the demands of all military requirements. Assignments in the service field to date are the Military Sea Transportation Service, the Military Air Transport Service, and the Military Traffic Management Agency.

For each assignment made to date, an operating agency has taken over or is in the process of taking over single control of each category or service from the several offices which performed such functions in the past. All are progressing satisfactorily in accordance with phased plans and complete implementation of all present assignments is expected to be realized this year.

Although the single-manager plan has been in operation only a relatively short period of time, notable accomplishments leading to the economies that you, the Congress, and we in Defense desire, are being achieved. Some of these are as follows:

Medical material.—There has been a personnel saving of 75 military billets and 113 civilian spaces. The number of items handled has been reduced from 11,652, to 9,501, a decrease of 2,151 items. A distribution system currently under establishment is expected to operate with 12 storage and issue points where previously 19 had performed this function.

Subsistence.—A combined personnel ceiling of 1,700 was formerly required by all services to perform the functions now assigned to this single manager. This ceiling is to be reduced by 5 percent in the coming fiscal year. A new distribution pattern is currently under development in which we seek to establish a more effective and economical system than existed under the old organizational concept. Through standardization actions, the number of different subsistence items has been reduced from 1,978 to 1,027, a drop of 48 percent.

Clothing and textiles.—The proposed distribution system in this area will use a total of 14 distribution and reserve depots in lieu of the 38 installations now used by the military services in handling this commodity. It is too early to comment at this time on possible personnel reduction. In the standardization and simplification area there has been a reduction in the number of semi-dress, low-cut shoe lasts (individual stock numbers) from 461 to 113, and individual shoes from 790 to 452. By no means is this the only action which has resulted in a reduction of clothing and textile items previously stocked.

Petroleum products.—This is our most recently established commodity assignment. The distribution pattern for petroleum items is currently under review. We fully expect to achieve economies similar to those developed in the other commodity areas.

Significant economies are being effected similarly in the service single-manager assignments. As experience grows, we fully expect these operations to result in even greater economies and increased management efficiencies.

SINGLE-SERVICE PROCUREMENT ASSIGNMENT

We are also continuing to utilize and improve the single-service procurement assignment system which has been in existence for several years. In the single procurement assignment program one of the military departments, through its normal procurement system, purchases all of a given class of commodities for itself and the other services, in accordance with their requirements. This program covers approximately one-half of all Department of Defense purchases of material and supplies. Exceptions are made for local procurement and certain equipment of special design.

Included in the single-service procurement assignment program is our plant cognizance program. Under this program, for example, each aircraft engine and propeller plant is under the cognizance of a single service. The cognizant service alone maintains a contract administration staff at the facility and processes orders to the plant for all of the services. Steps are now being taken to place missile plants under the plant cognizance system. Even where plant cognizance has not been assigned to a single service, one service normally performs the inspection and local contract administration functions for all of the services buying from the plant. We feel these are highly significant programs, often misunderstood and generally overlooked, but which in fact eliminate overlapping and duplication of effort.

INTERSERVICE SUPPLY SUPPORT SYSTEM

Still another important method for eliminating duplication is found in the Defense interservice supply support program—a relatively new but vitally important phase of military supply management which assures the interdepartmental utilization of all Defense supply assets before new procurement is undertaken, and which prevents the disposal of items for which any requirement exists. Implementation has been progressive and at present there are

18 commodity groups wherein this method of utilization is being effected and it covers the long stocks for 1.0 million items or about half of the total items in the Defense supply system. As soon as certain administrative funding procedures can be altered, the program will be expanded to provide for all stocks. Plans are now being made for the inclusion of another 13 commodity groups, which will cover practically all of the balance of the supply items. It is important to add that through unified commands overseas, responsibilities have been assigned for coordinating the efforts of the subordinate service commands to provide for interservice supply support within and between their respective areas. The interservice supply support program also embodies in its concept the utilization of common services in geographical areas, such as vehicle maintenance performed by one service for all services in a geographical area. In the second quarter of fiscal year 1957, goods valued at \$25 million were exchanged under this program.

CATALOGING

As you indicated in your remarks in the Record, the Federal cataloging program is perhaps the most important tool in the development of improved supply management. Now that the identification phase of cataloging is completed, major effort is being directed toward completion of the conversion phase. I am pleased to report that conversion has progressed to the extent that about half of the conversion job has been done. Total conversion to Federal identifications will be completed throughout the military supply system by the end of calendar year 1958. Moreover, major plans are underway for the active and progressive utilization of this catalog data for all supply purposes throughout the Department of Defense, from the development of specifications, requirements, inventory management, warehousing, and issuing, to disposal.

GENERAL SUPPLY MANAGEMENT IMPROVEMENTS

Now as to our comprehensive program for effective and economical management of the military supply systems applicable to all functional areas, there exists today a large number of established uniform policies, procedures and guidance. Several of the more important of these are documented as follows:

(a) The issuance of defensewide armed services procurement regulations designed to set forth uniform policies and procedures relating to the procurement of supplies and services.

(b) The requirement that the military services shall maintain accounting for each item under their control, indicating a composition of their inventories on a quantitative and monetary basis with respect to condition and purpose for which they are to be used.

(c) The military departments must furnish periodic reporting in line items and dollars on inventory transactions and on-hand assets by material category group for both principal and secondary type items, indicating how they are funded for the purpose of providing a review of the effectiveness of the implementation of sound business policy established for the management of these inventories.

(d) Policy which prescribes the use of old stocks before new procurement of identical or substitutable items can be effected.

(e) Requirement for the military services to consider serviceable or repairable items as part of their active inventory to the maximum economical extent in lieu of new procurement for these items.

(f) Establishment of a system for the optimum use within the Department of Defense of all materiel in long supply, regardless of which military service owns these items.

(g) A requirement for the military services to place optimum reliance on commercial or producer distribution systems.

(h) Policy to provide for the positioning of stocks at final distribution points, if known, or for the storage of these stocks in the areas in which they are actually procured and produced to reduce the amount of crosshauling and backhauling.

(i) A requirement for the military services to use commercial warehousing facilities rather than new construction.

(j) Policies which provide for the positioning of end item equipments in geographic areas by make and model, which will reduce spare parts supply problems and reduce inventories.

(A) Development and issuance of a joint storage and handling manual for mandatory use prescribing uniform policies and practices to be used jointly by military department storage personnel at all major supply installations in the United States and overseas.

(J) Policies providing for standard warehouse design and standardized materials handling equipment and accessories for use by all military services.

CLASSIFICATION OF STOCKS

I have noted particularly your comment on the undesirability of the services using different breakdowns in classifying stocks within the operating and reserve categories. This problem has been receiving our attention for some time and we agree with your criticism of the present methods and variations within the services. As shown in the latest Department of Defense report on real and personal property as of June 30, 1956, the four services each classify inventories, by purposes for which held, in different ways. A policy requiring such standardization of inventories was published in 1951. Implementation, while not yet completed by all services, is in process and we expect completion in the near future. As you can appreciate, the services have historically developed different systems. It takes time to rework these classifications into a uniform system without seriously disrupting military supply operations, but as you can see it is a matter to which we are giving particular attention.

STOCK FUNDS

Your remarks in the Congressional Record have dealt at some length with the subject of stock funds. This is an area frequently misunderstood and I am pleased to have the opportunity to comment and clarify certain of those aspects. The stock fund is one of the best systems yet devised to facilitate integrated common use supply operations. It is wholly compatible with the principle of integrated supply. As you have described them, stock funds are essentially supply corporations. Each service—Army, Navy, Marine Corps, and Air Force—has its own stock fund. Each stock fund is divided, and each division has its own manager and handles a particular category of supplies—clothing and equipment, subsistence, ordnance, and so forth. Each stock fund has its own inventory, its cash and its reserve, and operates on the general principle that stock cannot be issued unless it is paid for. Thus, it makes no difference whether the customer is one of the military departments or the military assistance program or another Government agency, just so long as they are eligible to purchase from the stock fund and have the money to pay for the goods desired.

Thus by its very nature, the stock fund can and does facilitate cross-service. In fiscal year 1956, for example, \$700 million or 37 percent of total Army stock fund sales were to customers other than Army agencies: 260 million to Air Force agencies; 243 million to military assistance programs, 65 million to Navy and Marine Corps; and 110 million were cash sales, essentially commissary and clothing sales to eligible individuals. By its very nature then, the stock fund can and does facilitate single manager operations, interservice supply support, and other facets of supply which assist in bringing about greater integration of our supply operations. In fact, the single-manager plan operates as a stock fund at the wholesale level on a defensewide basis.

You have criticized the basic principle upon which the stock fund operates, namely that no stock is to be issued unless it is paid for. This is the very point that provides the strength of the stock fund principle. The one sure way to achieve cost consciousness is to charge the consumer, whoever he may be, for every item he draws out of the supply system. Every time the consumer draws supplies from the controller of the stock fund he must pay for them out of the funds appropriated by the Congress for the purpose. This confronts the military consumer with the same kind of problem we face in our private lives—how to get the best return from the resources at our disposal.

As you may know, the combined assets of the military services' stock funds totaled some \$12 billion on June 30, 1956. The operations of these funds are carefully reviewed annually by the Subcommittee on Department of Defense Appropriations. During the past 4 years, over \$3 billion has been withdrawn from stock fund cash and returned to the Treasury. An additional \$437 million was withdrawn in fiscal year 1957 and applied to other Defense requirements in lieu of new appropriations. Such withdrawals or transfers of stock fund excess cash are specifically authorized by the Congress annually in the

Department of Defense appropriations; the disposition of stock fund excess cash resulting from the sale of items in long supply, which do not have to be replaced, or for other reasons, is at the discretion of the Congress.

For fiscal year 1958 the House Appropriations Committee has recommended that \$170 million be withdrawn from Army, Navy, and Marine Corps stock funds excess cash, plus \$120 million from the excess cash of Army and Navy industrial funds. This money totaling \$500 million, is to be applied to other Department of Defense requirements in lieu of new appropriations.

In connection with the above comments on stock funds, you will no doubt be interested in the following extracts from Congressman Mahon's statement in the Congressional Record of May 21, 1957.

"A thorough review of stock and industrial fund operations in the Army and Navy convinces the committee that these excess funds could more appropriately be transferred to the pay of the personnel of Army and Navy which are 1-year expenditures.

* * * * *

"The funds transferred from the stock fund account of previous years could have been expended for the expansion of stock fund inventories. They were available for that purpose and could have been so used without prior approval of Congress. The transfer of these funds to regular activities of the department, thereby reducing the total availability to the department must, it seems to me, be regarded as good business practice and should produce some savings." We are, of course, in full agreement with the objectives expressed in statements made by Congressman Mahon.

May I assure you that I recognize all too well the impact of the military supply management field on the national economy. It is the primary objective of the Defense Department to establish the most meaningful, economical, and efficient supply system within the framework of national security. My personal interest toward achieving this goal will continue to be a major one. I intend to give impetus and direction to the program wherever action and decision are called for.

Thank you again for this opportunity of expressing some of our viewpoints and relating some of our programs in an area in which we have mutual objectives. Your continuing interest in this important field is genuinely appreciated.

Sincerely,

FLORINE McGUIRE,
Assistant Secretary of Defense, (Supply and Logistics).

DECEMBER 13, 1955.

HON. CHARLES E. WILSON,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: I have read with interest and considerable surprise the letter dated November 9, 1955, from the Deputy Assistant Secretary of Defense (S. & L.), Mr. R. C. Lauphler, Jr., in response to my letter of October 24, 1955.

My surprise comes from the fact that I have also reviewed Mr. C. S. Thomas' memorandum of November 13, 1953, Mr. T. P. Pike's communication (Supply and Logistics-DN) of July 27, 1954, to Congressman Riehlman, his letters of September 3 and 20, 1954, to Congressman George P. Miller, those of November 18, 1954, and January 4, 1955, to Congresswoman Harden, and your press releases No. 1140 54 and 1094-55.

I am sure that a personal review of these and related documents will convince you of the absence of an overall plan and that your Office has adopted opposite positions within a year as to the method of handling two categories of common supply items—medical and subsistence for the military services.

It appears to me that the Department of Defense has retrogressed to where it was on July 17, 1951, when your predecessor's directive stated:

"Priority study shall be given to the feasibility of assigning to a single military department the responsibility for procurement, distribution, including depot storage and issue for classes of common items of supply and equipment, and depot maintenance of such equipment. Medical supply items shall be the first category to be studied."

After 4½ years, subsistence has been substituted for medical supply for another testing, and in Mr. Lauphler's words, paraphrasing the 1951 directive:

"We are also currently considering the feasibility of applying this concept to other commodity areas."

It would seem to me that the inevitable result must be that medical supply will either be assigned to Navy which did not support this concept before, or again to the Army. As there will eventually be a number of common supply categories to be assigned, it seems necessary that an integrated plan be developed as contemplated by the O'Mahoney amendment. Please advise me on this point at your earliest convenience.

As indicated in my letter of October 24, 1955, I am sending copies of this and Mr. Laughtler's letter, with related correspondence to those intimately concerned and to the press.

Sincerely yours,

JOHN W. McCONNACK, *Majority Leader.*

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
November 9, 1955.

Hon. JOHN W. McCONNACK,
House of Representatives.

DEAR MR. McCONNACK: Secretary Wilson has asked me to reply to your letter of October 24, 1955, in which you expressed concern about our administration and management of the military supply system.

While it is true that our surplus property program generates \$2 billion annually, a tremendous quantity of that property consists of materiel which has been made obsolete through technical advances or changes in design; additionally, much of this property represents scrap from military-type items having a high acquisition value which have served their purpose. Usable surplus items are given a thorough screening by the services for possible utilization. During fiscal year 1955, 14.6 percent of all surplus property, based on original cost, was utilized by the services. Over and above this use, the civilian agencies of the Government also used surplus Department of Defense property, after screening by the General Services Administration.

Donations of surplus property are also made to schools and other public institutions through the Department of Health, Education, and Welfare, pursuant to Public Law 152 of the 81st Congress, as amended by Public Law 61 of the 81st Congress. The full potential of the donation program was not fully realized until passage of Public Law 61. This donation program is being vigorously pursued throughout the Department of Defense.

You have also commented on the actions taken by the Department of Defense pursuant to the National Security Act of 1947, as amended, and the O'Mahoney amendment to the Department of Defense Appropriation Act, 1953. You referred to the fact that this subject was raised in a letter to the Secretary of Defense from Congressman Curtis earlier this year.

After receipt of Congressman Curtis' letter, the Department of Defense extensively reviewed the entire subject. We recognize that while Congress has expressed its desire that the Secretary of Defense eliminate unnecessary duplication and overlapping and establish a practical, integrated supply system, it has never directed the establishment of any specific type of supply or distribution system. Instead, Congress has specifically entrusted to the discretion of the Secretary of Defense the power to determine the best methods for meeting the supply and distribution problems of the Department of Defense.

The basic Department of Defense implementation of the O'Mahoney amendment is our Directive 4000.8. It is upon this directive that our entire program of supply management is based, and it is my express intention to maintain the policies set forth in this directive.

Pursuant to the discretion invested in the Secretary of Defense by Congress to determine the best methods of eliminating unnecessary overlapping and duplication in the supply field and of establishing a practical, integrated supply system, the Alameda medical supply test was established and subsequently discontinued. The establishment of the test and its discontinuance were both acts clearly within the discretion vested in the Secretary of Defense by the Congress.

The basis for this interpretation of the National Security Act of 1947, as amended, and the O'Mahoney amendment is set forth in greater detail in a memorandum to the Secretary of Defense from then General Counsel Wilber M.

Brucker of June 20, 1955. A copy of that legal memorandum is attached for your information.

In proceeding to eliminate unnecessary overlapping and duplication in the supply field, I must bear in mind at all times that our fundamental objective in that field is the establishment of the most effective and economical logistic support for our worldwide military forces. This Department has adopted aggressive measures designed specifically to accomplish this fundamental objective. During the last year Department of Defense directives and instructions have been developed and issued which provide for even greater cross-servicing, interservice supply, and positioning of materiel within and among the military departments.

These policy issuances are representative and indicative of our sincere and continued efforts to implement Department of Defense Directive 4000.8. They have provided common guide lines to the military services to achieve our objectives, and Joint Implementation of these issuances by the services has been achieved. The Department of Defense and the Nation as a whole have realized measurable benefits of considerable proportion from this singleness of purpose and coordinated support on the part of the services. It will interest you to know that in the areas of interservice supply support and cross servicing alone, we can point to specific transactions involving approximately \$1.4 billion in goods and services interchanged within and among the military departments in fiscal year 1954. I look for an even greater volume of business in interservice supply support and cross-servicing in the future.

You may be further interested to know that in our efforts to eliminate unnecessary overlapping and duplication in the supply-management field we have evolved and are putting into action a new concept. This concept was formally adopted in the area of subsistence on November 4, 1955, through the issuance of Department of Defense Directive 5100.11, "Single Manager Commodity Assignment for Subsistence." This directive, a copy of which was forwarded to you on November 7, and an additional copy of which is enclosed herewith, assigns to the Secretary of the Army the authority and responsibility of providing for the needs of all the military services, using the facilities and services of the other military departments where necessary and desirable. This assignment encompasses the entire supply field, from research and development through issue or disposal, including cataloging, standardization, requirements determination, procurement, production, inspection, storage, distribution, transportation, and maintenance.

Under this concept, stocks will be distributed through a single system whereby, for each distribution area, one military service, whether Army, Navy, Air Force, or Marine Corps, will administer a single area distribution depot from which all military installations in that area will requisition and receive subsistence. Items will be carried in a stock fund, which the Secretary of the Army will administer and control, from which suppliers will be paid and to which the military services will reimburse on the basis of withdrawals. The Department of the Army will initiate all procurement in this area and authorize local procurement. It will screen all excesses and redistribute as necessary, authorizing property to be declared excess to Department of Defense needs. The Department of the Army's responsibility for distribution is such that backhauls and crosshauls as well as duplicate items are eliminated.

We are also currently considering the feasibility of applying this concept to other commodity areas.

I hope that the foregoing discussion will illustrate the efforts which the Department of Defense is making to achieve the most effective and economical logistic support for the military forces. I am sure you will appreciate that objective is not one which may be reached without profound and detailed study of possible methods of attaining the desired goals.

On behalf of Secretary Wilson, I should like to thank you very sincerely for your advocacy of a strong national defense. The strengthening in every possible way of our national defense and our basic institutions will, in my opinion, be promoted by our continued progress in the logistics field. I have appreciated this opportunity to acquaint you more fully with our program.

Sincerely yours,

R. C. LANPHER, JR.,

Deputy Assistant Secretary of Defense (Supply and Logistics.)

(Press release, Thursday morning, October 27, 1955)

CONGRESS OF THE UNITED STATES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., October 27, 1955.

HON. CHARLES B. WILSON,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: I have read with great interest and appreciation your memorandum of September 2, 1955, to the three service Secretaries and Assistant Secretary of Defense (M. & P.) on the subject of "Implementation of Department of Defense Directives."

The first paragraph of the memorandum states:

"I am increasingly concerned over the growing criticism in the Congress and elsewhere of the lack of consistency in the manner in which the military departments carry out the purpose and intent of Department of Defense directives. Some of the Hoover Commission reports are quite explicit on this point."

Your concern with respect to Department of Defense directives is similar to mine with respect also to congressional statutes. I am sure we both agree that our constitutional form of government is in jeopardy whenever the executive agencies, regardless of motives, good intentions, or even greater wisdom in a given instance, choose the laws they will execute and those they disregard.

My growing concern was further aroused a year ago when the Department of Defense decided to bypass the clear intent of law with respect to the transfer of surplus property needed by our grossly inadequate educational and health institutions.

More recently, the issue is raised again by the decision of the Comptroller General of the United States with respect to the important SAGE program.

One of the most disturbing examples is that involving the so called O'Mahoney amendment to the Department of Defense Appropriations Act, 1953. The amendment, which is permanent law and as such is actually an amendment to the National Security Act (Unification Act) of 1947, calls upon the Secretary of Defense to develop an "Integrated Supply System" and the Senate Report No. 1861 spells the intent out in detail.

It should be stated that the O'Mahoney amendment was predicated to a great extent upon comprehensive hearings and reports of the Bonner and Hardy Subcommittees of the House and the Preparedness Subcommittee of the Senate, which pointed out the excessive overlapping, duplication, and waste within and among the services with respect to common supply and related matters.

Department of Defense Directive 4000.8 of November 10, 1952, constituted a good attempt to carry out the statute although it was limited to an intraservice basis generally rather than the intended integrated interservice basis. The directive did add some strength to the Alameda medical-supply test which had been directed a year prior by the Secretary's order of July 17, 1951. Unfortunately, the service pressure became too great and the Alameda operation was broken up last spring though it was generally acclaimed a success.

The whole story of the Alameda test was detailed to you in Congressman Thomas B. Curtis' 13-page letter of January 19, 1955. Certain of the Hoover reports confirm the conclusions of the congressional reports and enactments as to the need for more integration among the military services with respect to common supplies and services and as to the necessity of following applicable laws and regulations.

As I view the situation, Mr. Secretary, not only is the basic problem of constitutional government involved but many other issues of real concern to the American people. I will comment briefly on some of them.

The facts are conclusive that our educational facilities—though basic to defense—need great assistance. Large sums are required for the development and conservation of basic natural resources. Billions are needed for highways and public works. Costly outlays for fundamental and applied research are "a must" if we are to keep ahead in the technological race. Our health institutions are not in the state we desire. Oppressive taxes should be reduced, especially for the low-income groups. The budget requires balancing in its turn and the ever-growing national debt reduced.

As you know, I am, and have always been an advocate for the strong national defense upon which to support a foreign policy. It is also essential to our survival. I will not be beguiled into laxity by the palliative tactics now emanating

from the Kremlin. No one dares be, I believe that our defenses and basic institutions should be strengthened in every possible way for the long pull ahead.

But the evidence is conclusive that the overlapping, duplication, and waste is of such magnitude in and among the military services as to make possible enormous savings, with no loss of efficiency or military effectiveness, and thus release funds badly needed for the objectives listed above.

Presently, the stock funds for essentially common supply items in the four services (Army, Navy, Air Force, and Marines) have an unallotted cash reserve of \$15,300,000, cash of \$1,870,500,000, and inventories of \$8,103,000,000, or a total of \$10,018,800,000. This total, large though it is, is only a fractional part of the total personal property inventories in the services. Competent testimony before congressional committees points to the long supply in many of these items, to their duplication and triplication in the separate depot systems embracing millions of square feet of valuable space.

The current surplus property disposal program which involves an estimated \$2 billion annually, plainly shows that there is not integration among the services as to procurement, storage, utilization, or disposal of the numerous items. On the contrary, the daily lists of proposed purchases and sales which come to my attention show the evident need for common control and management of these common items.

I should appreciate learning of any plans underway which are designed to carry out the full intent of the O'Mahoney amendment.

It is my purpose to furnish copies of this letter and your reply to Members of the Congress in both Houses who are intimately concerned with this matter, and to keep the public advised.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

[News release]

DEPARTMENT OF DEFENSE,
OFFICE OF PUBLIC INFORMATION,
Washington, D.C., November 7, 1955.

NEW UNIFIED FOOD SUPPLY SYSTEM ANNOUNCED BY DEFENSE DEPARTMENT

A new method for the unified supply of common-use commercial-type items to all military services was announced today by Mr. Reuben B. Robertson, Jr., Deputy Secretary of Defense.

This system, developed over the past year in the Office of the Secretary of Defense, is called the single-manager commodity assignment, and places all supply responsibilities for a given commodity under a single military department which will supply the needs of all services. "This system is a product of our never-ending search for improved efficiency and economy," Mr. Robertson said, "and I am sure the American public will be gratified to learn of unification progress in this area. Although the broad recommendations made by the Hoover Commission in this area are still under review in the Department of Defense, the adoption of this single-manager supply system for subsistence items is in line with some of the objectives of the Hoover Commission reports."

Mr. Robertson also stated in his announcement that the system was being applied immediately to all Army, Navy, Air Force, and Marine depot stocks of food held in the United States, with the Secretary of the Army designated as single manager, and that other commodity areas were being studied for future application.

The single-manager commodity assignment is a process whereby the Secretary of one military department, designated by the Secretary of Defense, is made responsible for the performance of all supply-management functions related to a specified commodity, for all military services. This assignment encompasses the entire supply field, from research and development through issue or disposal, including cataloging, standardization, requirements determination, procurement, production, inspection, storage, distribution, transportation, and maintenance.

Its purpose is to reduce inventories and eliminate unnecessary duplication and overlapping of functions within the Department of Defense supply system, provide the highest degree of effectiveness in supply at the least possible cost, and to provide a single management control of wholesale stocks of a single commodity category or type for the Department of Defense as a whole.

The secretary of a Military Department is assigned to act as single manager for a particular commodity. All of the other military services then provide him with basic data for computation of requirements. Ownership of all service wholesale depot stocks in the United States is then transferred to the single manager. After developing all requirements and matching them against what he now owns to meet total demand, the single manager then initiates procurement for the net deficit. He will carry all stocks in a revolving fund, and as the services require stock, they will purchase from him.

Once given the assignment, the single manager then surveys the location of military stations within a geographical area and selects the most desirably located depot to support all services in the area. This selection is done without regard to the service which owns the depot. That depot then stores the depot stocks for the single manager, acting as his agent, and issues as required to all services. It is possible for the Army to be the single manager for a commodity category and to have stocks in Army, Navy, Air Force, and Marine Corps depots. Only one depot will serve a given area, however, and the stocks would belong to the single manager, in this case the Army.

As noted above, the authorities given the single manager are broad and cover the complete gamut of introduction of items into the system through their consumption. The single manager will direct and coordinate all research and development, standardization, and cataloging activities. He will be the only buyer of depot stock items, and he will be the only seller. As well, he will designate those items to be bought locally. Since he has knowledge of all assets, there should be no concurrent buying and selling, and he is in a position to shift depot stocks to meet varying area needs. Greatest possible use of stocks is assured, and only that which is truly surplus will find its way to disposal, since only he can determine that it is no longer required.

Operation of this system will provide a responsible single management for requirements and distribution, purchase, storage space, inventory records and standardization. It eliminates duplicate pipelines, duplicate depot storage facilities and costly cross and back-hauling; makes interservice supply automatic; provides for effective rotation of mobilization reserves; and insures effective utilization of stocks, services, and facilities.

The evolution of the single manager system has been progressive. It is also the result of considerable study of several existing joint-service operations, and avails itself of the lessons learned from these.

Joint-service operations, because of their very basic construction, permit no single ownership of stocks. As a consequence, very costly equity accounts have to be maintained to show what belongs to each service. The joint agency is largely a service organization, able to provide for certain functional tasks such as procurement and contract administration. The agency can only perform at the call of the stock owner, and cannot provide single direction since there is no single head. This is not the case in the single-manager plan. There is only one wholesale stock, effectively positioned, and centrally controlled, yet designed for the total Department of Defense requirements, with the single manager reporting only to the Secretary of Defense.

Deputy Secretary of Defense Robertson stated, "I consider this new unified approach to Department of Defense supply management another significant management improvement for obtaining more defense per dollar."

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 10, 1959.

Hon. MAURICE STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: Further reference is made to our exchange of letters concerning the necessity for increased economy and efficiency in the military supply systems and in the General Services Administration with respect to common administrative supplies for the Government.

I note in the last issue of Newsweek magazine that you are quoted as saying, "the Armed Forces can get along with \$500 million less by cutting away more deadwood." This is a very mild statement in my opinion. As a matter of fact, a full implementation of existing legislation as to supply and service activities

could bring about a real balance in the budget and with it a better Defense Establishment.

In reviewing my files I note that you promised in your letter of May 19, 1950, to advise me as to "action which we believe can and should be taken at this time." That has been almost 3 months ago. Is it not now possible to give me a report on what has been done, and what is contemplated with respect to my letter of April 28, 1950?

I have in mind making a few remarks on the floor before adjournment and would appreciate your cooperation in this matter.

Sincerely yours,

CLARENCE J. BROWN,
Member of Congress, Seventh Ohio District.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 19, 1950.

Hon. CLARENCE BROWN,
House of Representatives,
Washington, D.C.

MY DEAR MR. BROWN: Your thoughtful letter of April 28, 1950, on the subject of supply management in the Department of Defense raises a number of points which we believe deserve our careful consideration.

Several of the points which you have raised involve basic questions of organization and management policy in the Department of Defense which we would like to consider further before informing you of the actions which we believe can and should be taken at this time.

Sincerely yours,

MAURICE H. STANS, *Director.*

APRIL 28, 1950.

Hon. MAURICE H. STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: I am in receipt of your letter of March 17, 1950, and have given it careful study, and do not believe that it responds properly to my letter of February 21, 1950, as to content or spirit.

I am sure that you know, or at least your staff knows, of the interest I have had for many, many years in improving the supply management activities of the Government and, particularly, in the Department of Defense where so many billions of dollars are expended. Partly because of this long and intense interest, I was prompted to sponsor both Hoover Commissions, and have spent a great amount of time and effort in this area which I consider lends itself more than any other to economy and efficiency.

When former Director Brundage indicated to the Government Operations Subcommittee on May 28, 1957, that the Bureau of the Budget recognized the importance of this area of management and "was working on it," I was pleased, though it was immaterial to me whether the approach to improvement was through a reorganization plan, or pursuant to the Budget and Accounting Act of 1921, or through the Federal Property and Administrative Services Act of 1949, or through the general authority of the President of the United States, or otherwise.

I was interested in results and, quite frankly, I have seen small evidence of substantial accomplishments in this most important area. Certainly, I have seen no recent evidence that the Bureau of the Budget, which is the overall management arm of the President in these matters, has taken vigorous action with respect thereto.

Your letter of March 17 correctly indicates that I have opposed the concept of establishing still another supply service which would operate over and above the numerous existing supply services in the Department of Defense. What I think should be done is to merge or integrate, rather than create still more services. I think we need one effective supply service, rather than many separate and competing services.

It is also true that I have advocated that GSA should be given the tasks which were contemplated with the passage of Public Law 152, and also the means of redeeming them. This action was strongly advocated by the first Hoover Commission. GSA is now 10 years old, and I am sure that you are aware of the fact that it will never operate as planned unless it has the strong backing of the Bureau of the Budget. Specifically, GSA can never operate successfully in the large supply and service areas unless it is organized, staffed, and equipped to take over some of the large common supply and service activities now performed by the military agencies. Here again, I do not favor building up GSA and leaving the military agencies intact. There must be a transfer of stock, buildings, personnel, etc., if there is to be more efficiency, and this is a top management matter effecting organization.

I would suggest, Mr. Director, that the Bureau immediately try to delineate areas of common supply, particularly administrative-type items which can be turned over to GSA from the military agencies.

As a start, why not give it all types of office supplies, equipment, furniture, furnishings, etc., which are used not only by the military, but by numerous civilian agencies? I understand that GSA is serving the Air Force in this field, so why not extend the program to the Army and Navy also? In such a program I would expect, of course, that there would be less organization after transfers were made, than under current operations.

I also note from your letter that you tend to support the single manager systems which have been developed for a few classes of items in the Department of Defense. I am sure you realize that there are only 41,000 items in the single manager systems, and though some of these items are large in volume, the program is relatively small compared to the sum total of common items in the Department of Defense. For example, the general stores items in the services include 100,000 items or more, and even a cursory inventory analysis indicates there is a large duplication in these items in the military services. What has the Bureau done, or what does it plan to do to place these items under a single manager? I note from the DOD appropriations hearings for 1960, part 1, page 993, that criteria have been developed for the expansion of the single manager program, and also for the designation of the managers to operate the new plans. If this is so, why should there be long delays in starting other single manager categories? Certainly, with a vigorous standardization program there could be even more commonality with respect to these items.

I have made some inquiry concerning the unity in the military systems in the so-called theaters of joint command and find that a great amount of work needs to be done in the development of standard forms, procedures, regulations, etc., in order that there may be effective and responsive supply systems to back up the unified commands.

I presume that you are aware that the Air Force has started a study as to its communication requirements in the space age. Many people, including myself, wonder why such a study was not directed to the communications needs of the DOD at this time when the idea of joint commands is commonly accepted.

Within the last few days I have noted that the Navy is contemplating a rather important reorganization of some of its ordnance activities involving two or more services. Newspaper articles indicate that legislative action will be required in this respect. I wonder what overall studies are in contemplation at the BOB with respect to ordnance requirements among the three services?

I have also noted that the Army is currently developing a worldwide surplus property program. To what extent is this being geared to the entire program? And what is being done to stop the creation of needless surpluses? You stated in a recent "Face the Nation" program that "we have consultations going on with the Department of Defense even now, currently, on that subject." This has been a live problem since 1942, and something more than consultations are required to make progress. Now, I am not unmindful of the factor of technological change and obsolescence in this picture. But, frankly, there are too many military services buying, storing, and distributing the 3½ or more million items in the DOD supply systems. This is particularly so for common-type items.

Frankly, I think that we must solve the organizational and other problems which help cause the annual generation of \$8 to \$10 billion in surpluses. If you think that the McCormack amendment, section 202(c)(6) of the National Security Act, as amended, is the correct basis to get the job done, may I inquire what is being done with the Bureau's support in developing an overall program to accomplish the objective? Here again, I am not unaware that good account-

ing is "a tool" to good management, but good tools are not enough by themselves.

I have written this letter at some length to indicate the scope and nature of some of the problems which confront us in the supply and service field as I have viewed them over a long period of time. The GAO has issued approximately 200 reports in the last year dealing with some of these matters, though they have not as yet, so far as I know, studied and reported on the organizational weaknesses in the supply and service systems themselves.

It seems to me that the BOB which represents the executive branch topside in management matters, including reorganization, and which has the responsibility for presenting the budget, should be extremely active at this time in an area where the stakes are the national defense and the national economy. If this is not a management and organizational problem of the highest order, then there is none.

Sincerely yours,

CLARENCE J. BROWN,
Member of Congress, Seventh Ohio District.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., March 17, 1959.

HON. CLARENCE J. BROWN,
House of Representatives,
Washington, D.C.

MY DEAR MR. BROWN: Thank you for your letter of February 21, 1959, calling my attention to a discussion which you had with Mr. Brundage when he appeared before a subcommittee of the House Committee on Government Operations in support of legislation to extend the Reorganization Act. Your letter is timely because we are now seeking extension of the Reorganization Act on a permanent basis and Congressman Dawson has introduced, by request, a bill (H. R. 5146) which would accomplish that objective. We hope to have an opportunity to appear in support of the bill and to discuss it with you during the hearings.

For more than a quarter century the Congress has provided authority in various forms for the President to transmit reorganization plans which take effect unless disapproved by the Congress during a waiting period specified in the statute. The 1949 act was enacted largely as a result of the work and recommendations of the first Hoover Commission, in which you had an active role. Under that act 57 plans have been submitted to the Congress and 43 have gone into effect. The procedure has been thoroughly tested and found to be a sensible and efficient way to get changes in organization actually accomplished. It is a device by which the Congress retains the ultimate control over the actions taken while the President assumes responsibility for initiating the detailed preparatory work, and the time-consuming staff work which is usually entailed. The idea has worked mainly because it saves time. It is especially needed in accomplishing organizational changes which primarily improve operating methods and procedures.

Although the Reorganization Act has been helpful it does not replace congressional consideration of organizational issues included in bills which are introduced in the usual manner. We believe it is especially important to the success of the Reorganization Act for the Congress to find through experience that each plan transmitted has been carefully investigated and that it represents an objective evaluation of the issues involved. But a supporter of an organizational change which has not been included in a reorganization plan may, of course, introduce a bill which will bring the matter to the attention of the Congress.

As stated in your letter to me and in your discussion in 1957 with Mr. Brundage, military procurement is a major element in the Federal budget. The Bureau of the Budget is concerned with these programs and the various proposals to centralize military procurement for common-use supplies including the recommendations of the second Hoover Commission's Committee on Business Organization of the Department of Defense. The Congress also has had many opportunities to consider and act upon these proposals for a "fourth service of supply." For example, many bills have been introduced to establish a central supply agency in the Department of Defense such as H.R. 5790, H.R. 6048, H.R. 7429, H.R. 7612, H.R. 7630, H.R. 8604, and H.R. 8650 of the 85th Congress. Also, an amendment was proposed to H.R. 7665, the defense appropriation bill for fiscal year 1958.

which would have required the President to submit recommendations for a central supply organization reporting to the Secretary of Defense. That amendment was not accepted by the Congress but the matter was considered in connection with the Department of Defense Reorganization Act of 1958. As a result, section 202(c) (6) of the National Security Act was enacted. That amendment does not require establishment of a "fourth service" but authorizes the Secretary of Defense to centralize the procurement of common-use items whenever he determines that such action would be "advantageous to the Government in terms of effectiveness, economy, or efficiency."

In view of the new authority contained in section 202(c) (6) of the National Security Act, further action by legislation or reorganization plan does not appear necessary at this time. We would not favor action to establish a "fourth service" on a mandatory basis, at least until existing arrangements for unified procurement of common-use supplies have been thoroughly tested. The "fourth service" concept would create another agency to deal in common-use supplies, paralleling in part the responsibilities of the General Services Administration. It would establish another organizational layer without eliminating the supply structures in the military services which would still be responsible for the bulk of military procurement not considered common use. The separate statement which you submitted with the Hoover Commission's Report on Business Organization in the Department of Defense contained similar conclusions. You may recall that when the Hoover Commission's report was published, you included a separate statement objecting to the recommendations for a central supply service and concluded that "the suggestions for establishing a 'fourth service of supply' * * * are not new. They have been proposed and rejected on several previous occasions. In my opinion, they should be rejected again" (p. 104 of the report).

Progress is being made in accomplishing unified procurement and inventory control of common-use supplies. There is unified procurement and supply management for all subsistence, textiles, clothing, petroleum, and medical supplies. Extension to other areas is under study. The volume of common-use supplies furnished to the military services by the General Services Administration is steadily increasing until the quantity furnished this year will be more than double the volume handled in 1955 when the Hoover Commission prepared its report.

While I would like to see greater progress, we believe the current efforts, including the single manager system and related arrangements are in the right direction and that we should work for the fastest possible accomplishment of these measures. Further action now by legislation or reorganization plan appears unnecessary.

Sincerely yours,

MAURICE H. STANS, *Director*.

FEBRUARY 21, 1959.

HON. MAURICE H. STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: On May 28, 1957, Director Brundage appeared before a subcommittee of the Committee on Government Operations to press for the extension of the Reorganization Act of 1949, as amended.

At that time I had some doubt that the Bureau's request for the extension of the act on the basis of urgent need was warranted since little action had been taken in important areas under the existing legislation.

Please refer to my statement and Mr. Brundage's on pages 15-16 of the hearings H.R. 6711 above referred to. Specifically, I said:

"Mr. BROWN. We have that trouble on the Hill, both among ourselves and with our constituents.

"As a perfect example of what I am talking about, I would like to see some sort of reorganization plan set up here that would go further toward actually unifying the military services. We have not gone so far, under the Unification Act. Certainly I would like to see a plan submitted that would provide for central procurement, for at least common-use items in the Defense Department, and perhaps in other parts of the Government—a matter we have had before this committee and a situation which we have found not to be good. There is too much separate buying and bidding against each other.

"The Hoover Commission, incidentally, has recommended better procurement procedures for the armed services. Every bit of evidence the Commission has had points to the need, and I think much has come before this committee in the past, to indicate great savings could be made for the benefit of the taxpayers through centralized purchasing.

"Mr. BRUNDAGE. That is right. It is one of the big problems that we are working on.

"Mr. BROWN. The procurement field is where the money is spent, you know."

As you know, I sponsored both Hoover Commissions in the House, served on both Commissions, and helped prepare numerous reports of both groups, after careful study, which showed conclusively that the big area for saving in the Government is in more unification in supply and related matters in the Department of Defense. Certainly, Mr. Director, you must be aware of the stocks in the services that are valued at nearly \$50 billions in the supply systems inventories only. And a glance at the breakdown of inventories held by the many services should be enough evidence for the Bureau which is striving for a balanced budget, as am I, to go to work.

However, I fail to find in the 1960 budget or actions under the Reorganization Act, anything to support the statement of your predecessor that, "It is one of the big problems that we are working on."

Since this subject is sure to be raised if there is ever another request for extension of the Reorganization Act, and because it is most important at this time, I would appreciate a full explanation from you as to what has been done or is planned in this matter.

Sincerely yours,

CLARENCE J. BROWN,
Member of Congress, Seventh Ohio District.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.O., July 27, 1954.

Hon. R. WALTER RIEHLMAN,
*Chairman of the Military Operations Subcommittee,
Committee on Government Operations,
House of Representatives.*

DEAR MR. RIEHLMAN: Through our conversations in the past and through appreciation of what has been accomplished by you and your committee, I have recognized your sincere interest and the efforts you have made to provide guidance for the development of a comprehensive program for correcting deficiencies in supply and stock management practices of the military departments. As a result of this fact, I feel it is appropriate to advise you at this time of the course of action which we have developed in this area.

We are greatly encouraged by the progress made in the field of supply and logistics to assure the accomplishment of the most effective and economical administration and management of the respective military supply systems.

To permit you to evaluate our program objectives, it is necessary to discuss some of the history and background which resulted in the development of our current program. Specifically, I have reference to the concept which provided for separate supply systems studies in the area of common-use-type items of supply. These studies were carried on under the jurisdiction of the former Munitions Board. They were based on the premise that by combining like inventories of all military stocks, economies in the total inventory held by the Department of Defense would result. Further, that different types of items of supply required different organizations and methods of receipt, storage, and issue of supply. In the method of approach, these studies were made for the services rather than by them for the purpose of insuring that "unification" of supply systems would thus be achieved. In general, it was then thought that centralization of supply-management functions by commodity segments would result in economy by such centralization.

The formulation of such premises under which the studies were conducted did not, however, take into consideration the basic principles governing military supply system. It did not give recognition to the basic fact that each military supply system is maintained solely to provide supplies as needed by the tactical

force that they were called upon to support, and that such tactical force—Army, Navy, Marines, and Air Force—must develop its own requirements; further, that these requirements must be provided for at all times.

When engaged in operations, the tactical commander cannot rely solely on resources which his service cannot control. He can rely on support of other services only to the extent that such support is available.

Taking due cognizance of the philosophy and approach established by these earlier supply-systems studies and by giving recognition to the basic principles governing military supply support, an ad hoc committee on supply systems studies was established by this Office with representation by the three top military supply managers and representatives of the Office of the Secretary of Defense; specifically, the Directorate of Storage, Distribution, and Disposal. The mission of this committee was to reevaluate the supply-systems studies of medical-dental subsistence and automotive materiel for the purpose of determining those recommendations which had already been adopted by the military departments, those which could be adopted, or those which could not be adopted in the form contained in the separate supply-systems studies.

The committee arrived at several basic conclusions. Primarily, the supply-systems studies, if all had been completed and implemented, would have established far more diversification in organization, methods, and forms than now exists.

Secondly, the combining of stocks of similar supply classes in a single but separate distributive system would not reduce the total volume of requirements of the four military services.

Thirdly, the use of stock funds within each service facilitates cross supply support and permits the use of judgment in total quantities to be on hand to support the service affected since the stock-fund manager is responsible command-wise to that service.

Fourthly, and of equal importance, is recognition of the fact that the original studies recommended jointly administered systems, each basically different. If the 14 studies had been carried out as planned, there would likely be 14 different and separate systems where 4 now exist. Because of the joint-management concept of the proposed systems there would be no agency except the Office of the Secretary of Defense to administer them. If the Office of the Secretary of Defense administered them, the responsiveness of the three military departments would be lost. Thus, the departments would not be separately administered, as required by statute, and the Office of the Secretary of Defense would become an operating agency and yet not tactically responsible for tactical operations. This would be a violation of fundamental military doctrine of proven worth.

The Alameda test was also a subject considered by the ad hoc committee. It is believed that this test has been much misunderstood. At a depot on the west coast, it had been decided to position all stocks for the Pacific coast and the Far East, regardless of whether it was necessary or advantageous. The total stock remained under control of the services represented. Total stocks for each service were established by each service and, as a result, there was no reduction of stock. This test resulted, for example, in backhauling from Alameda to the Naval Supply Center, Oakland, for all Navy ships. In the warehousing area, the criteria established were inflexible and often, where good supply management decision dictated delivery to user direct from producer, such action was set aside and delivery made to the central warehousing point.

The final and unanimous report of the ad hoc committee recognized the operational deficiency disclosed by the supply systems studies and approved the implementation of the original study recommendations which were directly concerned with operating deficiencies. It recommended that those recommendations included in the studies which required the establishment of separate distribution systems for different commodity types, each different from one another, be disapproved. Finally, it recommended that no further studies using the commodity segment approach be made.

The original study recommendations covering subsistence, medical-dental, and automotive equipment totaled 147. Of these, 104 have been implemented or await implementation, indicating that the substantive value of the studies has been gained. However, it must be clearly recognized that the large number of recommendations indicated as already implemented by the military supply systems is not a direct result of the Munitions Board studies. Many of the features that were the subject of the recommendations were actually in effect prior to the conclusion of these studies and others were effected in the normal course of improving inventory management.

The continued existence of the supply systems study project precluded the treatment of basic supply problems across the board. Our present programs, now well established and advanced, require that basic supply policies applicable to all supply areas be developed and published; that receipt, storage, and issue of supply, subject to control of the service owning the supplies, be treated as a common function within each service, and the utmost standardization which is practicable and desirable be achieved in this area. Further, real economies in total volume of inventories will be achieved by shortening the length and volume of the pipeline; by storing high turnover items near the point of consumption and not at each stage in the pipeline; by improving (speedier) transportation; by use of financial data pertaining to inventories; by improving valid and accurate records upon which requirements and procurement are based.

Since the establishment of the Office of the Secretary of Defense we now for the first time have within the Department of Defense a constructive and comprehensive program governing the military supply systems mutually established and unanimously supported. It is under the immediate direction and administration of Mr. Albert B. Drake, my Director of Storage, Distribution, and Disposal. Mr. Drake is singularly qualified. He is the founder and former president of the Lehigh Warehouse & Transportation Co., Inc., of Newark, N.J. He is experienced and well grounded in handling all phases of storage and distribution of many different types of materiel produced and utilized by our national industrial companies. This has fitted him exceptionally well as Director of this all-important component of the Office of the Assistant Secretary of Defense (Supply and Logistics). He also founded in 1945, and served as president until 1949, the firm of Drake, Startzman, Sheehan, Barclay, Inc., materials handling and warehousing consultants. During World War II he gained broad experience in the field of military supply systems as Director of Depot Operations, Army Forces, Western Pacific, and as Director of the Storage Division, Army Services Forces.

Under Mr. Drake's immediate supervision and coordination, the top military supply managers - Maj. Gen. G. W. Mundy, USAF, Rear Adm. Murrey L. Royer, SFC, USN, and Brig. Gen. A. T. McNamara, USA - meet regularly and for the first time have succeeded in burying service interests and developing among themselves a fine operating climate within which the remaining and much more important logistics problems are now being studied and solved objectively in the common good.

For your information, I am enclosing concrete evidence of the progress being made and which I am confident will continue to be made toward achieving the most effective and economical administration and management of the military supply systems. The program speaks for itself. In addition to the "Statement of Programs," there are included copies of four directives, some already issued and others soon to be published. These directives are entitled, "Inventory Management," which establishes basic Department of Defense policy for the management of inventories of materiel; "Materiel Pipeline - Military Supply System," which prescribes the Department of Defense policies governing the requirements for, determination, establishment, and administration of the elements in the complete materiel pipeline of the military supply systems; "Administration of Mobilization Reserve Stocks," which prescribes Department of Defense policies governing the administration of mobilization reserve stocks by the military departments and other military agencies with specific reference to retention, storage, and care and preservation of all material available or to become available for application against the Mobilization Reserve Materiel Requirement; "Management of Materiel in Long Supply," which establishes policies and criteria governing the management throughout the Department of Defense of materiel in long supply.

The "Statement of Programs" has received the full concurrence of the military departments and all elements of my Office. The fundamental difference between the new approach used in this program and that previously established by the supply-systems project is that a commodity approach only solves commodity problems whereas the functional approach covers all problems inclusive of the commodity treatment.

Please be assured of my appreciation of your interest and cooperation in these vital matters.

Sincerely,

T. P. PIKE.

[News Release]

DEPARTMENT OF DEFENSE,
OFFICE OF PUBLIC INFORMATION,
Washington, D.C., November 23, 1954.

ARMY ALAMEDA MEDICAL DEPOT TRANSFERS TO NAVY; MEDICAL TEST CEASES

The proposed transfer of facilities at the Alameda Medical Depot from the Army to the Navy, pending congressional approval by the Armed Services Committee, was announced today by the Department of Defense. Arrangements for the transfer are underway, Thomas P. Pike, Assistant Secretary of Defense (Supply and Logistics), said, and it is planned that it will be accomplished prior to July 1, 1955.

The depot contains 1,178,000 square feet of warehouse space, and existing medical supplies in storage will be issued or transferred prior to the transfer of the depot. The Navy will utilize the installation to augment the storage facilities of the adjoining naval air station. It is not now known how many of the civilian employees currently employed by Army will be required by the Navy. However, in accordance with civil-service regulations, civilian employees will be offered opportunities for employment by the Army at Sharpe General Depot and by the Navy at Alameda, as required.

Mr. Pike also announced the discontinuance of the medical supply test, which has been in operation at the Army's Alameda Medical Depot, Alameda, Calif., since April 1952. The test was an experiment to determine the feasibility of distributing and storing medical supplies for all three military departments through one regional distribution point for the support of the services in that area.

The test is being discontinued, Mr. Pike stated, only after a thorough analysis and evaluation of the factors involved in this military supply support area. Its results, he said, have materially assisted the Department of Defense to develop a comprehensive program for eliminating unnecessary duplication and overlapping in supply and stock management practices of the military departments.

Experience gained from the Alameda medical-supply test, Mr. Pike said, has clearly demonstrated the efficiency and economy attendant with the utilization of military items of supply on a cross-service basis by all military services, regardless of the ownership of the stock. This principle forms an important part of the Department of Defense program.

The Alameda Cold Storage Plant, of the Oakland Quartermaster Market Center, and the 6023d ASU, Central Dental Laboratory, will continue as tenants of the Navy at the installation as will the 49th Infantry Division, National Guard.

Common storage and issue functions performed at the Alameda Depot have proven satisfactory to the Army and Air Force, and are being transferred intact to the Army's Sharpe General Depot, Lathrop, Calif. Factors and conditions set up for the test made the operation uneconomical for the Navy. The Navy's storage and issue functions and the partial stock of medical supplies involved will be returned to the Navy Supply Center at Oakland, Calif.

Forty-three military prime contractors; Net value of their military prime contract awards, July 1, 1957, to June 30, 1958, and defense sales as percent of total company sales, 1958²

Company	Net value of military prime contract awards, July 1, 1957, to June 30, 1958	Defense sales as percent of total company sales, 1958
	<i>Millions</i>	
General Electric Co.	\$183.4	24.0
Lockheed Aircraft Corp.	765.1	86.0
United Aircraft Corp.	661.1	88.0
Douglas Aircraft Co.	513.4	78.7
Northrop	400.2	60.2
Sperry Rand Corp.	370.1	41.0
Chance Vought Aircraft, Inc.	340.4	(^b)
McDonnell Aircraft Corp.	332.0	(^b)
International Business Machines Corp.	316.6	\$20.0
Radio Corp. of America	288.3	26.9
Northrop Aircraft, Inc.	283.6	(^b)
General Motors Corp.	280.9	8.0
Westinghouse Electric Corp.	269.3	19.0
Republic Aviation Corp.	264.7	(^b)
Chrysler Corp.	258.8	18.0
Curtiss-Wright Aircraft Engineering Corp.	245.7	(^b)
Raytheon Manufacturing Co.	237.0	88.0
Heath Aviation Corp.	207.5	73.0
General Tire & Rubber Co.	199.8	\$46.0
Ford Motor Co.	196.6	\$9.3
Fairchild Electric & Airplane Corp.	163.2	(^b)
Avco Manufacturing Corp.	86.6	\$60.5
Bell Aircraft Corp.	82.7	81.0
Raytheon Corp.	71.6	18.0
Philco Corp.	66.2	\$81.0
Thompson Products, Inc.	63.8	\$29.0
Morgan Aircraft Co.	60.2	(^b)
Food Machinery & Chemical Corp.	57.8	52.0
Thiokol Chemical Corp.	56.8	33.5
General Precision Equipment Corp.	52.9	\$95.0
Minneapolis-Honeywell Regulator Co.	47.0	28.0
Omlett Corp.	46.7	78.0
Leair, Inc.	38.4	50.0
Byylvania Electric Products, Inc.	37.0	23.0
Bath Iron Works Corp.	36.3	(^b)
Kaman Aircraft Corp.	31.6	(^b)
Westinghouse Airbrake Co.	31.5	33.0
Taconic Aircraft Corp.	29.7	(^b)
Hercules Powder Co.	26.8	2.0
Eastman Kodak Co.	26.1	4.0
Cessna Aircraft Co.	25.0	\$75.0
Beech Aircraft Corp.	24.0	67.0
Ryan Aeronautical Co.	22.2	60.0

¹ Number of companies, of the 100 largest military prime contractors, for which these data are published.

² Majority of business is defense but percentage not stated.

³ Special products for armed services.

⁴ Sales of rockets, propellants and associated items (Aerojet General Corp.)

⁵ Computed.

⁶ Includes Government and industry. No breakdown given.

⁷ Approximate.

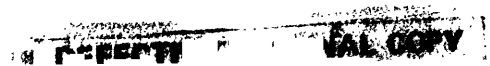
⁸ 1956.

⁹ Company operates shipbuilding plant at Bath, Maine, primarily for construction of combatant ships for U.S. Navy. Also does miscellaneous work in fields other than shipbuilding.

Source:

"100 Companies and Affiliates Listed According to Net Value of Military Prime Contract Awards, July 1, 1957, to June 30, 1958." Office of the Secretary of Defense.

Standard & Poor's "Corporation Descriptions." Standard & Poor's Corp., New York.



**THE BRIDGEPORT HARDWARE MANUFACTURING CORP.,
Bridgeport, Conn., January 19, 1960.**

JOINT ECONOMIC COMMITTEE,
Capitol Building, Washington, D.C.
(Attention Mr. Ray Ward).

GENTLEMEN: In connection with the study which you are making on procurement, we understand that mechanics hand service tools, which we manufacture, are being considered.

In this connection, we feel that it will be helpful to you to know that we have had considerable experience in dealing with the GSA procurement organization with our products. This goes over a period of some time, more than a year and a half, and we are impressed with the ability and cooperation which we have received and which we think is beneficial to the taxpayers.

We believe the knowledge and experience of this buying organization, in connection with our products, and their desire for good quality tools, is certainly in the interest of the services who use them, and results in overall savings to the Government.

We are, also, particularly impressed with the caliber of the inspection organization with whom we have had contact and we have found them capable in all respects.

We therefore hope that consideration will be given to maintaining the established organization in GSA for procurement of hand service tools.

Thanking you for your attention and cooperation.

Very truly yours,

JOHN F. WINDSOR, *President.*

SNAP-ON TOOLS CORP.,
Kenosha, Wis., January 14, 1960.

JOINT ECONOMIC COMMITTEE,
Capitol Building, Washington, D.C.
(Attention Mr. Ray Ward).

GENTLEMEN: We have heard that the Joint Economic Committee has recently taken some interest in the procurement of hand service tools for the Government and military agencies. Tools are of vital importance in the maintenance and repair of all machinery, equipment, and mobile units. This critical necessity was established during World War II. It also emphasized the importance of quality in hand tools.

During the past 2 years, there has been an effort to establish single-agency procurement, particularly for the military agencies. In theory, it would be most economical for the Government to buy through a single buying office, but there has been much confusion due to interservice complications unless the agency is more or less neutral.

Based on our own experience as a manufacturer dealing with all agencies, we firmly believe the best interests of the Government would be served by procurement of hand tools through the General Services Administration (GSA). Procedures have been established in GSA which eliminate much of the redtape and confusion normally encountered. GSA is a professional buying agency with facilities for testing and evaluating specifications for the end use of the product. This is important in the case of hand tools where a screwdriver that is used occasionally in post office maintenance would not be economic for an aircraft mechanic making constant use of the screw driver on costly equipment, hardened screws, and under hazardous working conditions.

On the same item, with identical quantities, we have been able to quote lower prices to GSA than to other agencies. The reason is that procedures of delivery, inspection, billing, and payment are made definite and businesslike.

We trust that the Joint Economic Committee may give some consideration to this problem in connection with procurement of hand tools.

Yours very truly,

R. PALMER, *Vice President.*

WASHINGTON, D.C., January 15, 1960.

Subject: Proposed single manager assignment to Quartermaster Corps of hand tools.

Mr. RAY WARD,
Joint Committee, U.S. Capitol,
Washington, D.C.

DEAR MR. WARD: It is understood that your committee has an interest in the subject assignment and in view of that fact I am taking the liberty to convey some comments and opinions concerning possible adverse developments which could result from that assignment.

Having been the Government representative of manufacturers of hand tools for the past 10 years I have followed closely the many intricacies involved in the supply area of hand tools and especially the many thousands of transactions involving the purchase of such tools for the various military and civil supply systems. Closely allied with the procurement functions and of course equally important are the engineering phases of preparing specifications and standards, as well as inspection. All of these are of vital importance to achieve a suitable degree of quality control thus assuring the Government of obtaining the best possible value for our tax dollars.

During these 10 years there has been a constant and coordinated effort on the part of both Government and industry to strive for the improvement in quality of the millions of dollars worth of hand tools required annually for the maintenance of our military equipment and facilities as well as equipment and facilities required by our civil agencies. Within this period, considerable progress has been made toward this objective and much of the credit can be attributed to the fact that the necessary organizations for achieving this goal; namely, engineering, purchasing and inspection have been slowly built up by the training of individuals who through these years of experience have been educated to realize the importance of supplying our Armed Forces and other users, with good quality tools. This is contrast to the poor quality and often useless tools which had infiltrated the supply systems in previous years when virtually no quality control was exercised.

Over the years it has been possible to observe the operations of these various functions and the resultant setbacks and confusion which invariably developed when major policy changes and reorganizations were injected into the picture. Severe setbacks in the overall effort to secure good quality tools invariably occurred with changes in procurement procedures. Unquestionably the subcommittee is well aware of the very deplorable results of the Air Force decision in 1954 to delegate responsibility for the purchase of hand tools to each individual activity, necessitating of course that the responsibility for carrying out this program be dumped into the hands of inexperienced personnel. This ill-advised decision resulted in loading the Air Force supply system with a reported 75 percent of inferior low grade hand tools. The Army, too, has on numerous occasions purchased tools by persons who obviously were inexperienced in a knowledge of the hand tool industry and accordingly, quite innocently, succeeded in injecting hundreds of thousands of dollars worth of low grade hand tools into their supply system.

Another outstanding example of the confusion and inefficiency which invariably occurs when major changes are made in a Federal supply class assignment of responsibility was the AF transfer of class 5130 (portable electric tools) from Robins AFB in 1957.

Since procurement and technical responsibility were removed from the hands of experienced personnel at Robins AFB and delegated to Topeka AFD and thence to Brookley AFB where it has been functioning for over 18 months, I have yet to see a clean, clear-cut bid issued by the AF for the 5130 class of tools. This situation appears to be directly attributable to the processing of details by inexperienced persons, and is rather a typical development which logically and inevitably occurs under such circumstances. Conditions such as these obviously bring about a tremendous waste of time and money to industry as well as the Government and further seems to be a lack of proper utilization of manpower which has been trained at considerable cost to the Government, and of course to the taxpayer.

As a direct result of the intolerable conditions which developed when the Air Force placed their handtool procurement program into the hands of inexperienced persons, the situation became so acute by the early part of 1957 it was evident that immediate and drastic steps must be taken to halt the further flow of inferior tools into their supply system. Accordingly, the AF entered into an agreement with General Services Administration to utilize the resources of that department for the provisioning of a substantial portion of their handtools, provided that only good quality tools would be supplied.

Through the diligent and efficient efforts of GSA who already had a substantial nucleus of personnel at hand, trained in handtool buying, this program began operating in November 1957 and in spite of the magnitude of the assignment, was able to supply the AF handtool requirements with surprisingly few complications. This relationship between AF and GSA has apparently been quite satisfactory to all concerned which is evidenced by the fact that currently GSA is supplying the major portion of AF handtool requirements.

In the writer's opinion, based on years of close association with Government procedures and policies in the handtool field, General Services Administration has been successful in obtaining better value per dollar spent for handtools under the current program than any other Government activity. This has certainly been to the advantage of the Government, the reputable handtool manufacturers, and certainly the taxpayer. Discussions with numerous equipment persons in the Air Force has indicated that it is unanimously agreed that the tools being supplied by GSA are completely satisfactory to all concerned and that the widespread dissatisfaction over inferior tools obtained under previous purchase methods has been completely eliminated.

With the foresight in mind it was quite surprising to learn that a recommendation has been made to appoint the Quartermaster Corps as single manager for handtools. From my observation, next to Air Force, Quartermaster Corps appears to be the least qualified of all to assume this tremendous responsibility, unless delegation of authority for accomplishing two of the most vital functions of overall single management is contemplated. Specifically, these functions are:

1. The preparation of specifications and standards currently under the cognizance of Bureau of Ships.
2. Procurement responsibility, now delegated to GSA, Navy (recently transferred from NIX, Washington, to GSSC, Philadelphia) and to a lesser extent to various Army activities.

Referring to No. 1 above, that vitally important function of preparing and coordinating specifications and standards has been the responsibility of Bureau of Ships for quite a few years. Consequently a very capable and efficient organization of experienced personnel currently exists to carry out the assignments of that office.

The second important function and the most important of all is that of procurement currently being accomplished by various agencies as previously defined, resulting of course in considerable duplication of efforts. Over the past 10 years this operation has been kiked about rather indiscriminately, the results of which are quite evident upon examining the history of this era of handtool procurement. It is very evident that GSA is the only agency having an existing well coordinated organization of trained and qualified personnel to efficiently assume the burden of any plan for centralized procurement of handtools.

In view of the foregoing it is very disturbing to think that the existing excellent organization composed of high caliber personnel with many years of training in this highly complex handtool field, now in operation by Bureau of Ships for developing and coordinating specifications and standards and by General Services Administration for the procurement and inspection of handtools, may be left to "sit on the vine." Both of these have been built up over a period of years at considerable expense to the Government and it would take a minimum of 5 years and additional expenditures of substantial sums of money to develop comparable efficient organizations.

Conversely, the Quartermaster Corps does not appear to have even a few persons in their department properly qualified in the handtool field to form even a nucleus of counterpart operations adequate to assume the functions currently administered so capably and efficiently by Navy and General Services Administration.

It would therefore seem highly desirable from the standpoint of efficiency, practicability, and economy for Quartermaster Corps to consider retulating the administrative functions of single manager of handtools, which they are unquestionably well qualified to handle, but to redelegate responsibility for preparing specifications and standards to the Bureau of Ships and for procurement to General Services Administration. In all probability this procedure would result in an efficient and orderly transition into the single manager plan of operation and thus preclude the utter chaos which would surely result in the event that QM attempts to take over the entire range of functions under the authority vested in a single manager.

The opportunity of presenting these comments and suggestions for your consideration is greatly appreciated.

Respectfully submitted,

H. MAXWELL FISHER.

List of surplus canvas duck, webbing, and taps from military supply depots--
Gallon duck summary sheet

Increment	Type	Location	Quantity Available	Quantity Desired
			<i>Yards</i>	<i>Yards</i>
April 1950	Gallon duck	Richmond	10,185,972	10,185,972
	Webbing	do	17,170,868	4,001,478
	Taps	do	600,783	681,383
Oct. 16, 1950	Gallon duck	Memphis	1,281,180	1,281,180
	do	Richmond	10,325,657	1,346,175
	do	Memphis	7,984,516	2,120,390
Jan. 16, 1950	do	Richmond	24,261,214	15,767,243
	Webbing	do	74,777,073	6,595,161
	Taps	do	29,338,110	1,155,295
Total	Gallon duck	Memphis	12,465,357	1,665,972
	do	Richmond	45,913,874	27,673,330
	do	Memphis	21,851,657	6,407,881
	Total		79,229,130	35,661,311
	Webbing	Richmond	90,287,136	10,546,339
	Taps	do	29,077,143	1,846,700

DEPARTMENT OF COMMERCE
BUSINESS AND DEFENSE SERVICES ADMINISTRATION
Surplus property actions, fiscal years 1957-59
AGRICULTURAL, CONSTRUCTION, MINING, AND OILFIELD EQUIPMENT DIVISION

Nature of items and program ¹	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BDSA's recommendation or disposition	Degree of impact on industry (none, slight, moderate, severe)	BDSA recommendation	Action, if known
Construction machinery:								
DOD ²		\$3,000,000	DOD.....	April 1957.....	April 1957.....	Severe ³	Reduce.....	Reduced 1:2
DOD.....		2,500,000	DOD.....	September 1957.....	September 1957.....	do ³	do.....	Reduced 1:2
DOD.....		1,500,000	DOD.....	January 1958.....	January 1958.....	do ³	Postpone.....	Postponed.
DOD.....		2,000,000	DOD.....	June 1958.....	June 1958.....	do ³	do.....	Do.
DOD.....		1,000,000	Navy.....	October 1958.....	October 1958.....	do ³	do.....	Disposed of as planned.
DOD.....		2,000,000	DOD.....	April 1959.....	April 1959.....	do ³	do.....	Postponed.

ALUMINUM AND MAGNESIUM DIVISION

I. World War II incendiary bomb bodies, ⁴ DOD.	7,814,113		Chemical Corps, DOD.	Aug. 21, 1956	Nov. 3, 1956 Nov. 12, 1956 and Jan. 30, 1959	Severe.....	To be offered at 6-week intervals at total 1,000 tons per offering: 500 tons magnesium and 500 tons iron nose.	Recommendation accepted; 5 sales consummated. Last sale scheduled June 7, 1960.
II. (a) Magnesium-cadmium scrap. ⁴	4,413		GSA.....	Mar. 23, 1959 revised Apr. 27, 1959	Apr. 10, 1959 and May 1, 1959	do.....	(a) Offer as 1 lot, removal speeded over 3 years at set amounts per year.	Advertised in Federal Register Sept. 1, 1959. BDSA to survey the industry situation in April 1960 and advise GSA of possible impact at that time.
(b) Magnesium scrap ⁴.....tons..	3,075		GSA.....	Mar. 23, 1959 revised Apr. 27, 1959	Apr. 10, 1959 and May 1, 1959	do.....	(b) Offer 451 tons mid-1960, balance speeded to prevent market dislocations.	
III. Being generated from World War II incendiary bomb clusters; not yet demilitarized; DOD.	61,565		Chemical Corps, DOD.	June 27, 1958		do.....	Pending	Note to date.
IV. Deteriorated magnesium ingot now in stockpile.	29,000		GSA.....	Apr. 27, 1959	(c)	do.....	do.....	Do.

AUTOMOTIVE AND TRANSPORTATION EQUIPMENT DIVISION

Aircraft engines.....	2,473	\$53,625,500	DOD-Navy.....	Oct. 24, 1956	Feb. 6, 1957	Slight.....	To be sold.....
Aircraft, Navy bomber.....	2		DOD.....	Nov. 21, 1956	Dec. 31, 1956	None.....	do.....
Aircraft, Navy patrol bomber.....	125		DOD.....	Sept. 20, 1956	Nov. 30, 1956	Slight.....	All sold at one time.....
Aircraft jet engines.....	19	950,000	DOD.....	Nov. 20, 1956	Dec. 31, 1956	do.....	To be sold *.....
Aircraft, amphibious.....	6	579,000	DOD.....	May 24, 1956	Aug. 7, 1956	None.....	do.....
Helicopters.....	3	150,000	DOD.....	do.....	do.....	Moderate.....	do.....
Aircraft cargo (C-74).....	11	13,976,424	DOD.....	Mar. 24, 1956	July 1, 1956	Slight.....	do.....
Aircraft trainer and cargo.....	167		DOD.....	June 11, 1957	July 13, 1957	do.....	do.....
Helicopters.....	3		DOD.....	do.....	do.....	do.....	do.....
Aircraft, fighter.....	582	139,458,166	DOD-Navy.....	June 18, 1957	Sept. 18, 1957	None.....	do.....
Aircraft, combat.....	24	4,949,412	DOD-Navy.....	May 28, 1957	June 11, 1957	Slight.....	do.....
Aircraft, fighter and bomber.....	2	410,165	DOD-Navy.....	May 24, 1957	do.....	None.....	do.....
Aircraft, training bomber.....	65		DOD.....	Apr. 24, 1957	June 3, 1957	Slight.....	do.....
Aircraft, trainers, Navy.....	1,009	26,499,367	DOD.....	Oct. 3, 1957	Nov. 8, 1957	None.....	do.....
Aircraft, fighters.....	75		DOD.....	Dec. 18, 1957	Feb. 11, 1957	do.....	do.....
Aircraft, patrol bombers (sea-planes).....	78		DOD.....	Feb. 6, 1957	Feb. 13, 1957	do.....	do.....
Aircraft, patrol bombers.....	7	2,295,262	DOD.....	June 24, 1957	July 29, 1957	do.....	do.....
Do.....	3	979,396	DOD.....	Sept. 10, 1957	Sept. 24, 1957	do.....	do.....
Aircraft, fighters.....	266	60,052,958	DOD.....	Sept. 27, 1957	Nov. 18, 1957	do.....	do.....
Aircraft, bombers.....	278	60,311,266	DOD.....	July 22, 1957	July 28, 1957	do.....	do.....
Aircraft, skyraiders, attack.....	102	22,557,260	DOD.....	Sept. 25, 1957	Nov. 18, 1957	do.....	do.....
Aircraft, patrol bombers.....	34	11,402,364	DOD.....	July 31, 1957	Aug. 29, 1957	do.....	do.....
Aircraft, fighters and bombers.....	891	125,699,063	DOD.....	Mar. 8, 1957	Mar. 27, 1957	Slight.....	do.....
Aircraft, jet trainers and fighters.....	411	40,535,771	DOD.....	Oct. 23, 1957	Jan. 30, 1958	do.....	do.....
Helicopters.....	7	884,514	DOD.....	do.....	do.....	Slight.....	To be sold.....
Aircraft, fighters and bombers.....	73	17,032,154	DOD.....	Jan. 28, 1958	Mar. 29, 1958	None.....	do.....
Aircraft radar (Super Constellation).....	2	4,171,888	DOD.....	do.....	do.....	Moderate.....	CAA procurement.....
Helicopters.....	18	1,476,000	DOD.....	Jan. 24, 1958	Apr. 22, 1958	do.....	To be sold.....
Do.....	1	20,000	Army.....	Oct. 10, 1958	Oct. 14, 1958	None.....	do.....
Aircraft, fighters and bombers.....	26	1,225,298	DOD.....	Apr. 11, 1958	Sept. 3, 1958	do.....	do.....
Aircraft, bombers.....	7	1,541,743	DOD.....	Jan. 24, 1958	Aug. 15, 1958	do.....	do.....
Aircraft bombers, Navy.....	21	7,507,878	DOD.....	May 14, 1958	Aug. 19, 1958	do.....	do.....
Helicopters ".....	15	10,740,495	DOD.....	Dec. 31, 1958	Apr. 10, 1958	Moderate.....	Deferred sale 90 days.....
Do.....	10		Army.....	July 24, 1958	Dec. 19, 1958	None.....	To be sold.....
Helicopters (Bell).....	22	825,000	DOD.....	Mar. 10, 1958	Sept. 8, 1958	Severe.....	(1).....
Helicopters (Sikorsky).....	16	1,312,000	DOD.....	do.....	do.....	do.....	(2).....
Helicopters.....	12	1,908,000	DOD.....	do.....	do.....	do.....	(3).....
Aircraft, jet fighters.....	158	153,038,223	DOD.....	July 3, 1958	Aug. 15, 1958	None.....	To be sold.....
Aircraft, light cargo.....	33	329,868	DOD.....	Dec. 27, 1957	Feb. 7, 1958	do.....	do.....
Aircraft, fighters.....	12	3,751,716	ROD.....	Jan. 3, 1958	do.....	do.....	do.....
Airships, Navy.....	8	2,566,056	DOD.....	do.....	do.....	do.....	do.....
Helicopters.....	11	2,760,384	DOD.....	do.....	Apr. 10, 1958	Moderate.....	Defer for 90 days.....
Aircraft, fighters.....	173	26,530,995	DOD.....	Oct. 1, 1957	Jan. 7, 1958	None.....	To be sold.....
Aircraft, twin-engine Beech.....	217	13,061,715	DOD.....	do.....	do.....	Severe ".....	Deferred for further study.....

Sealed bid sale.

Sealed bid sale.

CAA procured.

Sealed bid sale.

Sale was deferred.

See footnotes at end of table, pp. 525-526.

Surplus property actions, fiscal years 1957-59 - Continued
 AUTOMOTIVE AND TRANSPORTATION EQUIPMENT DIVISION - Continued

Nature of items and program 1	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BOPA recommendation or disposition	Comments on inventory, date, quantity, location, etc.	BOPA recommendation	Action if known
Aircraft, twin-engine-Beech.....	22	\$1,418,824	Navy.....	Sept. 2, 1958	Nov. 4, 1958	None	Sell at fixed price	
Aircraft, cargo and transport.....	116	21,575,475	DOD.....	Oct. 9, 1957	Nov. 28, 1957	None	To be sold	4 sold, balance in AF inventory.
Aircraft, patrol bombers, fighters, and utility.....	24	10,740,292	DOD.....	Sept. 18, 1958	Feb. 12, 1959	None	do	
Aircraft, mostly patrol bombers.....	30	11,052,246	DOD.....	Feb. 6, 1959	Feb. 12, 1959	None	do	
Helicopters (wrecked).....	4		GS&A.....	Apr. 22, 1959	Apr. 24, 1959	do	do	
Do.....	2	215,499	Air Force.....	Apr. 30, 1959	June 2, 1959	do	do	
Aircraft, cargo.....	4	2,757,066	do.....	do	do	do	do	
Helicopter.....	1		Navy.....	June 2, 1959	June 4, 1959	None	do	
Do.....	1		do.....	May 29, 1959	May 29, 1959	do	do	
Helicopter (wrecked).....	1		Navy.....	June 2, 1959	June 3, 1959	do	None or sell or scrap	
Marine anchors.....	1,500	1,715,571	do.....	Oct. 26, 1958	Jan. 13, 1959	None	To be sold as scrap	100 sold or scrap in AF inventory, 1000 in AF inventory, 1000 in AF inventory.

BUILDING MATERIALS DIVISION

Nature of items and program 1	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BOPA recommendation or disposition	Comments on inventory, date, quantity, location, etc.	BOPA recommendation	Action if known
Steel fence posts.....32-inch posts.....	1,410,000	\$551,000	Air Force.....	Dec. 18, 1958	Jan. 9, 1959	None	do	
Bailey bridge components pieces and bridge conversion sets.....	42,539	935,000	Navy.....	June 4, 1959	June 25, 1959	do	do	

CHEMICAL AND RUBBER DIVISION

Nitric acid, DOD-AEC..... tons.	4,100						
DOD surplus sulfuric acid at Joliet Arsenal.	Variable						
Phosgene, DOD..... pounds.	8,000,000						
Phosphorus oxychloride, do..... DOD.	2,370,000						
Outlease of Government-owned ordnance plant, Kankakee Arsenal, Joliet, Ill. (sulfuric acid facility).	(a)						
Agar-agar stockpile..... short tons.	88						
Morgantown Ordnance Plant facilities for making ammonia, methanol, etc. ¹⁰							
Cactus Ordnance Plant facilities to make ammonia and ammonium nitrate.							
Trinitrotoluene (DOD).... pounds.	18,000,000	5,800,000					
Pyrethrum extract, a pesticide.	27,800	1,418,000					

See footnotes at end of table, pp. 325-326.

Surplus property actions, fiscal years 1957-59--Continued

CHEMICAL AND RUBBER DIVISION--Continued

Nature of items and program	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BDSA's recommendation or disposition	Degree of impact on industry (none, slight, moderate, severe)	BDSA recommendation	Action, if known
Quinine stockpile.....	ounces	13,390,000	GSA.....	Feb. 10, 1959	Mar. 12, 1959	Slight.....	Concurred with GSA's proposal to offer total quantity on negotiated basis. Schedule of delivery required from all bidders. GSA will require minimum annual quantity to approximate 2,000,000 ounces.	
Hyoscine stockpile.....	do.	4,070	GSA.....	do.	do.	do.	Concurred with GSA proposal to dispose of material over extended period of time, approximately 1,070 ounces per sale.	
Fyrethrum extract, a pesticide.	pounds..	17 141,308	\$960,328 GSA.....	Aug. 6, 1959	Sept. 17, 1959	None anticipated.	That disposal in 1960 to processors in the total amount of 141,308 pounds including a set aside for small business be made in broken lots at agreed upon intervals.	Recommendation accepted.

CONSUMER DURABLE GOODS DIVISION

Wood folding cots (DOD).....	170,991	\$1,528,507	BDSA is.....	Feb. 5, 1958	Mar. 4, 1958	Severe.....	Withdrawal and donation.	Agreement by DOD.
Clay pigeons.....	9,000,000	279,554	BDSA.....	Apr. 25, 1958		Slight.....		

COPPER DIVISION

Copper cable (DOD) feet.....	29,000,000		DOD.....	Sept. 12, 1957	Sept. 18, 1957	Moderate.....	Recommended that the material be sold for scrap in order to reclaim the refined copper.
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ELECTRICAL EQUIPMENT DIVISION

Signaling projectors.....	239		DOD.....	July 29, 1959	Aug. 12, 1959	None.....	None.....
DC generators.....	99		DOD.....	July 10, 1959	July 24, 1959	None.....	do.....
Amplidyne (motor generators).....	609		DOD.....	Mar. 16, 1959	Apr. 7, 1959	Severe.....	Canibalize and/or restrict sales.

ELECTRONICS DIVISION

Transmitters-receivers AN-RT-7/ APN-1, part of AN/APN-1.	3,632	\$798,040	Department of Navy.	Mar. 11, 1959	Mar. 24, 1959	None.....	
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FOOD INDUSTRIES DIVISION

Coconut oil (stockpile)....pounds.....	285,000,000		OCDM.....	Sept. 11, 1958	Feb. 13, 1959	None.....	Schedule of sales of a minimum of 10 million pounds and maximum of 14 million pounds at regular 4-week intervals. First sale should be held as soon as legally possible.	Sale to begin on Dec. 23, 1959.
Palm oil (stockpile).....do.....	47,700,000		OCDM.....	do.....	July 10, 1959	Slight.....	No objection to disposal.	Action not yet determined for method of disposal.
Castor beans (stockpile).....do.....	884,105		Agriculture.....	May 4, 1959	May 6, 1959	None.....	Recommended that the infested castor beans be sold.	Sold on July 17, 1959.

See footnotes at end of table, pp. 525-528.

Surplus property actions, fiscal years 1957-59—Continued

FOREST PRODUCTS DIVISION

Nature of items and program	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BDA's recommendation or completion	Date of transfer to industry (date when surplus was transferred)	BDA recommendation	Action, if known
DOD wooden pallets.....	388,955		DOD.....	Aug. 8, 1956	Oct. 10, 1956	November 7, 1956	Recommendation	All sales understood to have been made in accordance with BDA's recommendations.
	41,599		Supplemental	Mar. 14, 1956				
	13,000		Army.....	Jan. 7, 1956	Jan. 7, 1956	Feb. 2, 1956	See immediately	
	47,222		USAF.....	Aug. 14, 1956	Aug. 14, 1956	Oct. 10, 1956	Do	
	5,449		Navy.....	Oct. 2, 1956	Oct. 2, 1956	Oct. 10, 1956	Do	
Total requests.....	411,255							
Total recommended sales.....	314,326							
Balance.....	96,929							

GENERAL INDUSTRIAL EQUIPMENT AND COMPONENTS DIVISION

Tire chain..... pairs.....	160,670	\$2,164,947	DOD.....	June 14, 1956	Nov. 1, 1956	Sept. 1, 1956	1) Sold to industry 2) Sold to Government 3) Sold to Government 4) Sold to Government 5) Sold to Government 6) Sold to Government 7) Sold to Government 8) Sold to Government 9) Sold to Government 10) Sold to Government 11) Sold to Government 12) Sold to Government 13) Sold to Government 14) Sold to Government 15) Sold to Government 16) Sold to Government 17) Sold to Government 18) Sold to Government 19) Sold to Government 20) Sold to Government 21) Sold to Government 22) Sold to Government 23) Sold to Government 24) Sold to Government 25) Sold to Government 26) Sold to Government 27) Sold to Government 28) Sold to Government 29) Sold to Government 30) Sold to Government 31) Sold to Government 32) Sold to Government 33) Sold to Government 34) Sold to Government 35) Sold to Government 36) Sold to Government 37) Sold to Government 38) Sold to Government 39) Sold to Government 40) Sold to Government 41) Sold to Government 42) Sold to Government 43) Sold to Government 44) Sold to Government 45) Sold to Government 46) Sold to Government 47) Sold to Government 48) Sold to Government 49) Sold to Government 50) Sold to Government 51) Sold to Government 52) Sold to Government 53) Sold to Government 54) Sold to Government 55) Sold to Government 56) Sold to Government 57) Sold to Government 58) Sold to Government 59) Sold to Government 60) Sold to Government 61) Sold to Government 62) Sold to Government 63) Sold to Government 64) Sold to Government 65) Sold to Government 66) Sold to Government 67) Sold to Government 68) Sold to Government 69) Sold to Government 70) Sold to Government 71) Sold to Government 72) Sold to Government 73) Sold to Government 74) Sold to Government 75) Sold to Government 76) Sold to Government 77) Sold to Government 78) Sold to Government 79) Sold to Government 80) Sold to Government 81) Sold to Government 82) Sold to Government 83) Sold to Government 84) Sold to Government 85) Sold to Government 86) Sold to Government 87) Sold to Government 88) Sold to Government 89) Sold to Government 90) Sold to Government 91) Sold to Government 92) Sold to Government 93) Sold to Government 94) Sold to Government 95) Sold to Government 96) Sold to Government 97) Sold to Government 98) Sold to Government 99) Sold to Government 100) Sold to Government	Divided into 10 lots
Crowfoot ratchet wrenches.....	101,915	665,152	USAF.....	Sept. 1, 1956	Sept. 1, 1956	Sept. 1, 1956	No comment	
Chain 5/8 inches by 150 feet.....	2,040	310,080	USN.....	Mar. 2, 1956	Mar. 2, 1956	Mar. 2, 1956	Outside BDA	

IRON AND STEEL DIVISION

1. Landing combat vehicles, tracked, DOD.	91	\$3,412,500	DOD (Marine Corps).	Mar. 15 1956	Mar. 15 1956	Steel	Approved for use by...	Stockpile...
2. Vanadium pentoxide pounds. (V ₂ O ₅), AEC.	12,000,000	12,000,000	AEC	Apr. 2 1959	Apr. 7 1959	Steel	Stockpile of AEC	Material...

LEATHER, SHOES AND ALLIED PRODUCTS DIVISION

Discontinued military shoe lasts.	229,700		DOD	Oct. 1 1956	Oct. 15 1956	Steel	Discontinued...	Material...
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MISCELLANEOUS METALS AND MINERALS DIVISION

Diamonds, rough cut- carats. table, gem quality (stockpile).	47,048.80		GSA	Dec 1 1954	Dec 1 1954	Steel	Material...	Material...
Diamonds, cut and polished, gem quality (stockpile).	8,397.80							
Osmium #..... troy ounces.	26,980		GSA	Mar 21 1954	Mar 21 1954	Steel	Material...	Material...
Rhodium #..... do.	2,515,000							
Ruthenium #..... do.	50,817							
Hafnium #..... short tons.	1,074		GSA	Mar 21 1954	Mar 21 1954	Steel	Material...	Material...
Zircon #..... do.	8,952							
Kyanite-mullite short tons. (stockpile, nonspecification grade).	2,264	225 7/8	GSA	Mar 21 1954	Mar 21 1954	Steel	Material...	Material...
Cryolite, synthetic short tons. (DPA, no stockpile objective).	25,988	10,780 6/8	GSA	Mar 21 1954	Mar 21 1954	Steel	Material...	Material...
Titanium, sponge short tons. (DPA) (170 Bhn and above).	21.5		GSA	Mar 21 1954	Mar 21 1954	Steel	Material...	Material...

See footnotes at end of table, pp. 525-528.

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Surplus property actions, fiscal years 1957-59—Continued

MISCELLANEOUS METALS AND MINERALS DIVISION—Continued

Nature of items and program ¹	Quantity	Cost to Government (if known)	Requesting agency	Date received	Date of BDSA's recommendation or disposition	Degree of impact on industry (none, slight, moderate, severe)	BDSA recommendation	Action, if known
Tin, pig (DOD surplus) . . . pounds..	469,500 350,000	\$513,975	Navy..... do.....	Mar. 19, 1959 Apr. 28, 1959	Apr. 1, 1959 May 4, 1959	None ?	Thorough screening of other agencies, then dispose of remainder at the rate of 1 carload per month.	First sale scheduled for December 1959.
Cadmium-magne- short tons.. sium scrap (cadmium content only, incendiary bomb scrap).	4,413		GSA.....	Mar. 25, 1959	Oct. 12, 1959	Slight	Verbal approval as to cadmium content.	
Talc, steatite, ground short tons.. (postwar transfer, no stockpile objective).	6,285	280,053	GSA.....	June 9, 1959	June 9, 1959	do	No objection to disposal plan.	
Graphite, crystalline short tons.. flake, domestic (DPA).	533		GSA.....	June 25, 1959	Aug. 11, 1959	None	Consented to disposal plan; BDSA to watch for any local impacts.	
Titanium, sponge short tons.. (DPA) (141 Bhn to 170 Bhn).	2,463		GSA.....	do	(?)	Severe	Recommended retention in Government inventory because of possibly severe impact on domestic production.	None.
Revised disposal short tons.. plan.	85		GSA.....	July 7, 1959	July 13, 1959	do		
POWER EQUIPMENT DIVISION								
Naval vessels.....	127		Bureau of Supplies and Accounts	July 16, 1958	Aug. 19, 1958	(?)	Proceed with disposal.	Disposals have been completed according to plan.

SCIENTIFIC, MOTION PICTURE, AND PHOTOGRAPHIC PRODUCTS DIVISION

Binoculars, DOD.....	15,011	\$1,730,154	DOD.....	Oct. 10, 1958	Oct. 15, 1958	None		
Aerial cameras, DOD.....	1,472	1,000,000	DOD.....	Aug. 24, 1959	Oct. 4, 1959	None		
Gyro compasses, DOD.....	29		DOD.....	Aug. 5, 1959	Aug. 13, 1959	Do	Collection	Do

TEXTILES AND CLOTHING DIVISION

Wool sweaters (DDD).....	120,048	\$738,296.30	Air Force.....		Aug. 17, 1957	None	Do	Do
Do.....	188,347	1,235,246.64	Do.....		Oct. 11, 1957	Do	Do	Do
Field jacket hoods (DOD).....	173,000	258,813.00	DOD.....	Feb. 14, 1958	Feb. 12, 1958	None	Do	Do
Royal (7 items), sisal (DOD):								
(1).....feet.....	2,400	624.00	Air Force.....	Dec. 4, 1958	Dec. 11, 1958	None	Do	Do
(2).....do.....	243,871	36,564.65						
(3).....do.....	100,000	8,000.00						
(4).....do.....	16,800	4,350.00						
(5).....do.....	1,124,456	146,179.28						
(6).....do.....	562,323	56,232.30						
(7).....do.....	39,305	5,109.65						
Total.....		257,099.88						

¹ Stockpile, DOD, AEC, DPA, or other program.

² Includes power cranes and shovels, tractors, earthmoving scrapers, motor graders, rollers, ditchers, portable crushers, and repair and replacement parts.

³ Impact explanation: The construction machinery industry during the past few years has had an unusually large inventory of new machines at the factory and also at the distributor level. In addition, distributors have large inventories of all types of used machines.

⁴ Generated from World War II incendiary bombs.

⁵ Nose bomb bodies—contain approximately 5,311.8 tons magnesium and 5,615.3 tons iron.

⁶ Clusters would possibly generate about 7,000 tons magnesium scrap.

⁷ Approximate.

⁸ Formal recommendation not made to date; BDSA objected.

⁹ Potential purchasers to be advised of the fact that repair parts are not available commercially.

¹⁰ To be sold to 1 customer if possible.

¹¹ That General Services Administration would dispose of these helicopters to other Government agencies or to educational institutions.

¹² Mr. Tolino of DOD was notified Oct. 27, 1957, by telephone that BDSA would delay recommendations on the 217 JRB-4 (Beech aircraft) as the impact on the manufacturers of executive type airplanes would be severe. For this reason, we desired to investigate with OSA, HEW, and Military Aid to ascertain if the number could be reduced through:

1. Transferring from the Navy to other Government agencies.

² Technical training programs for schools.

³ Military aid to friendly foreign nations.

This procedure required some time. However, 65 of these surplus airplanes were transferred to other Government agencies, provided as military aid to friendly nations or transferred to schools for technical training purposes, leaving 28 airplanes to all Government needs, which would also be a severe impact if put on the market.

Then on Sept. 2, 1958, the Navy informed BDSA that it had a surplus of Beech aircraft was surplus to their requirements and requested consideration concerning the market impact if sold.

On Oct. 22, 1957, information received from an Army spokesman indicated that Army Command indicated that the sale of the surplus airplanes to the public would have a serious adverse effect on the commercial market for executive type airplanes, so that it would impact the market for executive type airplanes and lower substantially the market value of executive type airplanes.

Therefore, on Nov. 4, 1957, BDSA made the following recommendations to the DOD: That consideration be given to the sale of the surplus airplanes to the military; that the surplus C-45 aircraft of the Air Force, as transferred in accordance with Public Law 85-620, sec. 5 of Public Law 85-620, 71 Stat. 1122, dated July 1, 1958, be disposed of that the sale of these surplus aircraft to friendly foreign nations would be a severe impact on the market value of executive type airplanes and would have a severe impact on the commercial market for these planes.

It is also noted from the manufacturers of the C-46 aircraft and the Air Force instructions that the sale of these 116 aircraft would be helpful to the manufacturing industry in that there would be an increased demand for spare parts. Therefore, on Nov. 18, 1957, HUSA recommended to DOD that the sale of these aircraft would not cause an adverse market impact.

Subsequently, it developed after the Air Force sold 4 of these aircraft, that further sales could possibly have a very substantial adverse impact upon other segments of aviation primarily the airline industry and companies involved in aircraft modification and sales. It was also apparent that the sale of C-46 aircraft possibly be the initial part of a much broader problem relating to impact from surplus sales of other transport and utility type aircraft.

On Jan. 18, 1958, HUSA advised DOD of this possible impact and recommended that future sales be postponed for further impact study and other recommendations submitted. From advice received during a special conference on this subject, held by DOD on Mar. 19, 1958, and from a Government interagency committee, DOD on May 24, 1958, made recommendations to H & H as follows:

1. None of the remaining C-46 aircraft should be sold on the domestic market, except as provided in item 2 below.
2. 60 of the least desirable of these airplanes should be made available for spare parts purposes, with appropriate stipulation on sales contracts to preclude their use as flyable aircraft and in such manner as to be consistent with civil safety considerations.
3. The remaining 51 should be stored for at least such temporary period as may be necessary to permit exploration of the extent of potential usefulness in connection with Government programs.
4. If it is found upon appropriate reexamination that the retention of some or all of the 51 C-46 aircraft would serve no useful purpose from the standpoint of Government programs and that continued storage would present substantial difficulties, we would recommend that these be destroyed for salvage purposes.

"None of the anchors to be sold as anchors until such time as the industry and the area had recuperated from the economic recession and could accommodate the disposal without adverse effect. Consideration should be given to selling the anchors for scrap purposes only, if it was found that the Government had not received sufficient return above the price of premium scrap to warrant their being sold as anchors.

- * Ballistic and nitro acid facilities.
- * 2000 plants had formerly been used in defense industry. Closes in 1948 and Morgantown in 1952. Closure of Morgantown was terminated in July 1959.
- * Balance carried over from 1958. See above.
- * Utilized by DOD from various DOD excess property lists.
- * Verbal.
- * Supply demand study forwarded.
- * Impact of sale of all pallets at one time would have been severe in some areas. Impact varies from slight to severe, depending on economic conditions and season.
- * Recommended schedule of sales Oct. 10, 1958, 78,250 pallets Jan. 21, 1959, 72,145 pallets (after adjustment of Mar. 28, 1959); Apr. 24, 1959, 55,229 pallets and July 21, 1959, 55,000 pallets.
- * Precursor transfer, in stockpile objectives.
- * Synthetic removed from stockpile list.
- * If 3-year program is followed.
- * If sale is timed right.
- * Telephone.
- * Offered verbally.
- * Discard provision only. Discard program covered landing ship medium (LSM), landing ship medium tank (LST), and landing ship tanks (LST) each class equipped with twin diesel propulsion engines. If tanks not shared in active service equipment and environments would be salvaged and offered on the open market and hulls would be scrapped, in which case there would be severe impact in the diesel engine industry then operating at 48 percent capacity.
- * Agreement was made in strictest confidence but the ship disposal program as much as possible and offerings were made at the rate of 10 to 15 units per month.
- * It is suggested that DOD reexamine this item at a reduced price with the thought that most of them would be picked up by other Government agencies and thus not appear on the commercial market. This was done and most of the units were picked up—those remaining for public sale were not enough to create a market impairment.
- * We contacted manufacturers of aerial cameras who reported that this type of camera was now obsolete and its sale would have no unfavorable impact on the market, we so advised DOD.

FEDERAL STATISTICAL USERS' CONFERENCE,
Washington, D.C., January 22, 1940.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR DOUGLAS: I have noticed with considerable interest that the Joint Economic Committee has scheduled hearings late this month on the impact of defense procurement on the national economy.

It has long been recognized that defense expenditures have an important effect on the level and trend of overall economic activity. Considering the importance of these expenditures it is curious that there has been no detailed examination of the available statistical information relating to this important part of the economy.

The adequacy of information on Federal Government procurement has been a matter of growing concern to users of Federal statistics. User interest has led to the establishment of a committee on Federal Government procurement statistics in the Federal Statistical Users' Conference. This committee, of which I am chairman, is just now getting underway. Although its work has been essentially of an exploratory character so far, some observations on the adequacy of existing data and the need for statistical improvement which has been brought to the committee's attention may also be of interest to you.

Generally speaking, available data provide a reasonable good historical exposition of the broad importance of defense procurement to the national economy. They do not, however, furnish much assistance to public and private decision makers who are concerned with the current and future impact of defense procurement upon the economy.

For example, available public information does not reveal how the impact of defense procurement activities will be felt by the economy over time. Appropriations and contract awards information provide a rough guide to the impact of defense procurement activities for some indeterminate future period, but they give no indication as to what the impact will be in 3 months, in 6 months, in 9 months, and so on.

It has been suggested that effective debt and budgetary management as well as the implementation of the Employment Act of 1946 would be promoted by quarterly estimates of anticipated expenditures for defense procurement. In furnishing such quarterly estimates, the Federal Government would be supplying information akin to that which business supplies on its anticipated expenditures for plant and equipment. Such quarterly information would undoubtedly be of considerable importance in evaluating the short-run impact of defense procurement on the national economy.

It has been argued that inadequacies in existing data contribute to economic instability in industries which serve defense needs. The budget cycle within the military services stretches over more than an 18-month period. Part of this process within the services involves bringing up plans for the forward procurement of specific quantities of individual items.

Manufacturers, too, have a lead time between the decision to produce and the time when goods become available. To learn of procurement decisions after the crucial manufacturing decisions have been made introduces obvious instabilities into the economy. Statistical information which would make possible a higher degree of coordination between procurement decisionmaking and private decision-making would help to mitigate the instabilities which defense procurement introduces into the economy.

In this connection, it has been pointed out that the effectiveness with which procurement statistics can be used by management varies directly with the amount of industry or product detail that is supplied. Manufacturing plants are committed to the production of specific items and manufacturers find it increasingly difficult to make practical use of information as the categories which describe it become broader.

The impact of defense procurement on the national economy is of such importance that it would seem to be worth while for the Joint Economic Committee or its Economic Statistics Subcommittee to consider whether the presently available information is adequate to meet public and private needs.

Should the committee decide to embark upon such an inquiry, the Federal Government procurement statistics committee of the Federal Budgetary Data Conference would be glad to lend every possible assistance to the committee's work.

Sincerely yours,

HOWARD L. BEHN.

Data on depot activities and inactivations since 1947

DEPARTMENT OF AIR FORCE DEPOT ACTIVATIONS

Installation name	Location address	Land area acres	Covered space, square feet	Date activated
Raymond Air Force Station	Raymond, Mo.	(1)	810,000	July 1, 1951
Shakopee Air Force Supply Branch	Shakopee, Wis.	195 1	1,314,000	Aug. 1, 1958
Altoona Air Force Station	Altoona, Pa.	529 75	1,721,000	Jan. 1, 1955
Marble Air Force Station	Marble, Pa.	109 81	1,002,000	May 1, 1955
San Antonio Air Force Station	San Antonio, Tex.	923 40	9,367,000	July 1, 1955
Odessa Arsenal Annex	Odessa, Utah	3,401 0	1,393,000	Apr. 1, 1955
Stockton Air Force Station	Stockton, Calif.	111 40	781,000	Dec. 1, 1954
Air Force Departmental industrial equipment inventory storage site No. 1	Navo Hauls, Ind.	479 0	9,010,000	Jan. 1, 1956
Warehouse No. 31	Kansas City, Kans.	(1)	105,000	1951
Atlanta Overseas Intransit Depot	Newark, N. J.	95 0	1,895,000	April 1951
Marion Air Force Station	Marion, Ohio	(1)	283,000	Apr. 30, 1951
McKees Rock vehicle storage station	McKees Rock, Pa.	(1)	1,185,000	Apr. 9, 1951
Vanuxem vehicle storage station	Vanuxem, Wash.	117 0	701,000	Nov. 16, 1951
Laurinburg Maxton vehicle storage station	Laurinburg, N. C.	1,180 0	110,000	Jan. 12, 1951
Reading Air Force Station	Reading, Pa.	9 5	801,000	June 24, 1952
Isolney Air Force Station	Mobile, Ala.	0 8	60,000	Aug. 1, 1952
Harrisburg Air Force Station	Harrisburg, Pa.	1 65	67,000	1953
Philadelphia Air Force Station	Philadelphia, Pa.	6 8	911,000	December 1954
Binghamton Medical Depot	Binghamton, N. Y.	(1)	617,000	1956

DEPOT INACTIVATIONS

Depot	Square feet covered storage space	Remarks
1948		
Army:		
Binghamton Medical Depot, N. Y.	620,000	Transferred to Air Force (storage of strategic and critical materials).
Boston Quartermaster Depot, Mass.	2,007,000	Lease canceled.
Atlanta Ordnance Depot, Ga.	2,205,000	Leased portion canceled; owned portion transferred to Atlanta General Depot.
St. Louis Ordnance Depot, Mo.	463,000	Lease canceled.
San Francisco Medical Depot, Calif.	514,000	Do.
Air Force:		
501st Specialized Depot, N. Y.	1,728,000	Do.
5081 Specialized Depot, Ill.	1,404,000	Reverted to industrial use.
1949		
Army:		
Gulf Chemical Depot, Ala.	1,447,000	Disposition not known.
Kansas City Quartermaster Depot, Mo.	1,086,000	Transferred to Adjutant General for use as records center.
1950		
Army:		
Lincoln Ordnance Depot, Ill.	1,205,000	Redesignated a National Guard facility.
Washington Quartermaster Depot, Va.	1,222,000	Redesignated a class I installation (Oameron Station).
Air Force:		
Binghamton Medical Depot, N. Y.	647,000	Transferred to GSA.
Pacific Overseas Intransit Depot, Calif.	321,000	Space returned to Navy.
1951		
Army:		
Nansemond Ordnance Depot, Va.	428,000	Transferred to Navy.
Susquehanna Ordnance Depot, Pa.	285,000	Excessed.

1 No record.

Data on depot activations and inactivations since 1947... (Continued)

DEPOT INACTIVATIONS

Depot	Square feet covered storage space	Remarks
1962		
Name:	1962	
Army:		
Ordnance Building (Ballistics Signal Depot), Md.	902,000	Lease canceled.
Baltimoreville Ordnance Area, Md.	15,000	Disposition not known.
1964		
Army:		
Middletown Ordnance Area, Md.	412,000	Lease canceled.
Westfield Arsenal Depot, Mass.	121,000	Do.
Navy:		
Naval Storehouse, Point Pleasant, W. Va.	208,000	Transferred to GSA.
Naval Magazine, Phenix, Ala.	42,000	Transferred to Army.
Air Force: Washburn Elm St., Kansas City, Mo.	105,000	Lease canceled.
1966		
Army:		
Alameda Medical Depot, Calif.	802,000	Redesignated an administration center.
Augusta Ordnance Depot, Ga.	100,000	Disposal.
Baltimore Signal Depot, Md.	210,000	Lease canceled.
Baton Rouge Engineering Depot, La.	608,000	Transferred to Air Force.
Casal Engineering Depot, Ind.	1,725,000	Transferred to GSA.
Charlottesville Quartermaster Depot, N. C.	1,167,000	Redesignated an industrial facility.
Chicago Quartermaster Depot, Ill.	925,000	Redesignated an administration center.
Frankford Ordnance Depot, Pa.	307,000	Reverted to Frankford Arsenal.
Hingsopillar Dispersed Area, Ga.	117,000	Disposal.
Liberty Hall Dispersed Area, N. C.	107,000	Transferred to Navy.
Marbleton Transportation Depot, Pa.	1,618,000	Transferred to Air Force.
Mira Loma Quartermaster Depot, Calif.	1,009,000	Do.
Ogden Ordnance Depot, Utah	1,303,000	Do.
Pasco Engineering Depot, Wash.	1,485,000	Disposal.
San Antonio General Depot, Tex.	2,436,000	Transferred to Air Force.
Belmyhill Dispersed Area, Pa.	107,000	Disposal.
Springfield Ordnance Depot, Mass.	109,000	Reverted to Springfield Army.
Blackton Dispersed Area, Calif.	751,000	Transferred to Air Force, Navy, and Stockton Post District.
Watertown Ordnance Depot, Mass.	82,000	Reverted to Watertown Arsenal.
Watermill Ordnance Depot, N. Y.	120,000	Reverted to Watermill Arsenal.
Navy:		
Medical depot, Edgewater, N. J.	512,000	Disposition not known.
Cold storage plant, Miami, Fla.	15,000	Do.
Naval magazine, Key West, Fla.	44,000	Transferred to naval station, Key West.
Brooklyn supply activity, New York.	1,042,000	Transferred to Military Medical Supply Agency.
Air Force:		
Atlantic Overseas Intransit Depot, N. J.	1,866,000	Lease canceled.
Marion Air Force Station, Ohio	282,000	Returned to Army.
McKeon Rock Vehicle Storage Station, Pa.	1,156,000	Lease canceled.
1966		
Army:		
St. Louis AG Depot, Mo.	210,000	Redesignated a publication center.
St. Louis Medical Depot, Mo.	820,000	Redesignated a class I installation.
Terro Haute Ordnance Depot, Ind.	2,619,000	Transferred to Air Force.
Washington AG Depot, Va.	191,000	Reverted to class I installation (Cameron Station).
South Annex, St. Louis Medical Depot, Mo.	540,000	Lease canceled.
Navy:		
NSD, San Pedro, Calif.	1,232,000	Transferred to shipyard and lease canceled.
NSD, Seattle (Takoma Annex)	546,000	Reported to GSA for disposal (Aug. 28, 1968).
NAD, Charlotte, N. C.	836,000	Disposal.
1967		
Army:		
Lordstown Ordnance Depot, Ohio.	2,728,000	Redesignated a class I installation.
Navy:		
NAD, Iona Island, N. Y.	311,000	Operated by GSA (stockpile).
Air Force: Delaney Air Force Station, Ala.	60,000	Lease canceled.

Data on depot activations and inactivations since 1947—Continued

DEPOT INACTIVATIONS

Depot	Square feet covered storage space	Remarks
1958		
Army:		
Belle Meade General Depot, N.J.	2,283,000	Transferred to GBA.
Carlisle storage activity, New Jersey	46,000	Disposal.
Curtis Bay storage activity, Missouri	857,000	Transferred to GBA.
Delaware storage activity, New Jersey	610,000	Transferred to AAA Unit and Civil Works.
Jeffersonville Quartermaster Depot, Ind.	3,002,000	Transferred to GBA.
Boston storage activity, Massachusetts	25,000	Reverted to Boston Army Base use.
New Orleans storage activity, Louisiana	55,000	Reverted to New Orleans port use.
Navy: NSD, Spokane, Wash.	3,503,000	Disposal.
Air Force:		
Savannah Air Force Station, Ga.	813,000	Lease canceled; 172,000 square feet returned to Army.
Spokane Air Force Supply Branch, Wash.	1,014,000	Returned to SAC jurisdiction.
Stockton Air Force Station, Calif.	751,000	Disposal.
Lanhamburg Maxton Vehicle Storage Station, N.C.	118,000	Lease canceled.
Reading Storage Station, Pa.	303,000	Do.
Vancouver Vehicle Storage Station, Wash.	701,000	Returned to Maritime Commission.
1959		
Army:		
Aberdeen Ordnance Depot, Mo.	438,000	Reverted to proving ground.
Lima Depot activity, Ohio	403,000	Reverted to standby industrial installation.
Navy and Marine Corps:		
Naval Shipyard (Maspeth Annex), N.Y.	984,000	Disposal.
Marine Corps Forwarding Annex, Va.	644,000	Transferred to GBA.
NSD, Scotia, N.Y.	3,511,000	Do.
Air Force:		
Philadelphia Air Force Station, Pa.	211,000	Do.
Maywood Air Force Depot (Chell), Calif.	3,107,000	Pending disposal.
Total.....	71,037,000	

SCHEDULE DEPOT INACTIVATIONS

	Square feet
1000	
Army: San Jacinto Ordnance Depot, Tex. (disposal).....	512,000
Marine Corps: Marine Corps forwarding annex, Islais Creek, Calif.....	444,000
Air Force:	
Montgomery Air Force Station, Ala.....	1,140,000
Slack Air Force Station, La.....	570,000
Baton Rouge Air Force Station, La.....	988,000
1002	
Gadsden Air Force Depot, Ala.....	1,551,000
Memphis Air Force Depot, Tenn.....	1,913,000
Shelby Air Force Depot, Ohio.....	4,074,000
Topeka Air Force Depot, Kans.....	3,203,000
Prairie vehicle storage, Mississippi.....	1,043,000

ILLUSTRATION OF INTERSERVICE SUPPORT IN ALASKA

Unified commander: CINCAL.

Population: Approximately 88,000 military and civilian personnel; 50 percent are Air Force.

COO's at Anchorage and Fairbanks integrate Army and Air Force air defense units.

Principal facilities:

Army: Fort Richardson, Anchorage; Whittier (port); Haines (port) (POL); Fort Greely.

Air Force: Elmendorf AFB, Anchorage; Ladd AFB, Fairbanks; Eielson, AFB, Fairbanks.

Navy: Naval Air Station, Kodiak; Naval Air Station, Adak.

Function: General administrative and logistic support. Air Force provides Army Nike-Hercules battalion in Fairbanks area (specialized support excepted), approximately 4,000 people.

Supply:

1. Army provides all medical supply, subsistence, POL (pipeline operation).

2. Haines-Fairbanks pipeline—Army operates, Air Force uses 85 percent of product.

3. Army provides Air Force with other usual technical service property for items stocked in theater (ordnance-general, engineer-signal, etc.).

4. Air Force provides all oxygen and other gases.

Maintenance: Army provides Air Force with all vehicular and construction equipment maintenance through Army supply and maintenance center.

Construction: Performed by Army district engineers.

Except for contributions to the staff of the commander in chief, interservice activity on the part of the Navy is virtually prohibited because of geographic considerations. Interservicing discussed below is essentially between the Army and the Air Force.

Services:

Medical: Air Force operates all hospitals.

Laundry: Performed by Army.

Dry cleaning: Performed by Army.

Shoe repair: Performed by Army.

Mortuary: Performed by Air Force.

Excess redistribution and surplus disposal: Performed by Air Force.

Transportation:

Water ports: Operated by Army.

DEW line.

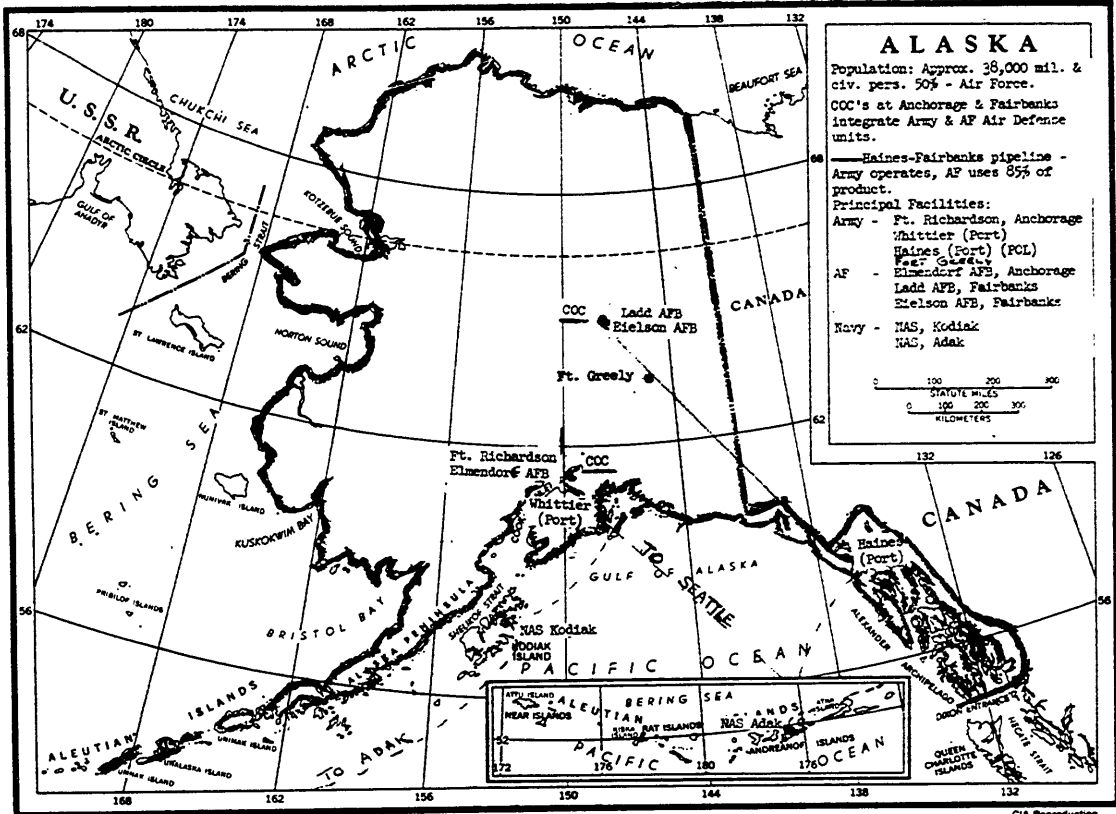
Resupply: Administered by Army.

Exchanges: Joint Army-Air Force Exchange.

Motion picture service: Army Motion Pictures Service.

Army is involved in providing support to Air Force under terms of 19 different interservice agreements.

CINCAL estimates \$12 million annual savings through these arrangements.



Net value of their military prime contract awards, July 1, 1957-June 30, 1958, and defense sales as percent of total company sales, 1958¹—45 military prime contractors.

[In millions of dollars]

Company	Net value of military prime contract awards, July 1, 1957-June 30, 1958	Defense sales as percent of total company sales, 1958
General Electric Co.....	783.4	24.0
Lockheed Aircraft Corp.....	755.1	86.0
United Aircraft Corp.....	681.1	88.0
Douglas Aircraft Co.....	613.4	78.7
Martin Co.....	400.2	99.2
Sperry-Rand Corp.....	370.1	41.0
Chance Vought Aircraft, Inc.....	360.4	(3)
McDonnell Aircraft Corp.....	352.0	(3)
International Business Machines Corp.....	316.5	20.0
Radio Corp. of America.....	288.3	25.9
Northrop Aircraft, Inc.....	283.5	(3)
General Motors Corp.....	280.9	5.0
Westinghouse Electric Corp.....	269.3	19.0
Republic Aviation Corp.....	264.7	(3)
Chrysler Corp.....	258.6	15.0
Grumman Aircraft Engineering Corp.....	245.2	(3)
Raytheon Manufacturing Co.....	237.0	86.0
Bendix Aviation Corp.....	207.5	73.0
General Tire & Rubber Co.....	169.8	46.0
Ford Motor Co.....	166.6	9.3
Fairchild Engine & Airplane Corp.....	103.2	(3)
Avco Manufacturing Corp.....	86.5	60.5
Bell Aircraft Corp.....	82.2	81.0
Burroughs Corp.....	71.6	15.0
Philco Corp.....	66.2	31.0
Thompson Products, Inc.....	63.8	80.0
Marquardt Aircraft Co.....	60.2	(3)
Food Machinery & Chemical Corp.....	57.8	22.0
Thiokol Chemical Corp.....	56.8	83.5
General Precision Equipment Corp.....	52.9	60.0
Minneapolis-Honeywell Regulator Co.....	47.0	28.0
Garrett Corp.....	46.7	78.0
Lear, Inc.....	38.4	90.0
Sylvania Electric Products, Inc.....	37.0	23.0
Bath Iron Works Corp.....	36.3	(3)
Kaman Aircraft Corp.....	31.6	(3)
Westinghouse Airbrake Co.....	31.5	33.0
Temco Aircraft Corp.....	29.7	(3)
Hercules Powder Co.....	26.8	2.0
Eastman Kodak Co.....	26.1	4.0
Cessna Aircraft Co.....	25.0	60-75
Beech Aircraft Corp.....	24.0	67.0
Ryan Aeronautical Co.....	22.2	60.0

¹ Number of companies, of the 100 largest military prime contractors, for which these data are published.

² Majority of business is defense but percentage not stated.

³ Special products for armed services.

⁴ Sales of rockets, propellants, and associated items (Aerojet General Corp.).

⁵ Computed.

⁶ Includes Government and industry—no breakdown given.

⁷ Approximate.

⁸ 1958.

⁹ Company operates shipbuilding plant at Bath, Maine, primarily for construction of combatant ships for U.S. Navy. Also does miscellaneous work in fields other than shipbuilding.

Source: "100 Companies and Affiliates Listed According to Net Value of Military Prime Contract Awards, July 1, 1957-June 30, 1958." Office of the Secretary of Defense; "Standard & Poor's Corporation Descriptions." Standard & Poor's Corp., N.Y.

Prepared by Raymond M. Wiggs, analyst in industrial organization and corporation finance, Economics Division, Legislative Reference Service. Library of Congress, Nov. 4, 1959.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., September 24, 1959.

HON. NEAL SMITH,
House of Representatives.

DEAR MR. SMITH: Pursuant to your request of June 23, 1959, we have investigated the statements made by Mr. Edward Basofin, Columbus, Ohio, in his letter of June 17, 1959, in which he urges consolidation of the Army, Navy, and Air Force audit agencies in the interest of releasing military personnel for military duties and relieving industry of the requirement of complying with three differ-



ent procedures and different interpretations of the contract cost principles. He refers to recommendations for consolidation made by "a team representing some of the largest public accounting firms in the United States" and the Hoover Commission.

The results of our review of recommendations made for consolidation of the audit agencies within the Department of Defense (DOD) referred to by Mr. Basoff and the actions taken by DOD on such recommendations are as follows:

Hoover Commission task force report on military procurement

Insofar as we were able to determine, there was no formal recommendation for audit consolidation made by the Hoover Commission. However, in the June 1953 task force report on military procurement there was included, as appendix D, Industry Views on Government Contracting. In appendix D, under the heading "Auditing by Government Agencies," was a statement that "According to the survey, contractors overwhelmingly, and military buyers only to a slightly less degree, feel that * * * a single audit agency under the Department of Defense could effectively handle the audit requirement of all departments, thus eliminating duplicate staffs and overlapping audits."

We understand that the Department of Defense official reply to the Hoover Commission task force report on military procurement did not cover the matter of audit consolidation, presumably because the report made no recommendation for consolidation.

Recommendations of team of public accountants

In March 1958 the Office of the Assistant Secretary of Defense (Comptroller) arranged with six individuals from three public accounting firms to conduct a comparative survey of the audit agencies of the Army, Navy, and Air Force. The participants in the survey acted as consultants to the Department of Defense rather than as representatives of their respective public accounting firms and worked as three independent teams, each of which submitted separate reports. In addition, the principal recommendations upon which all three teams were in agreement were submitted in summary form to the Assistant Secretary of Defense (Comptroller). The first of the agreed-on recommendations, which was quoted by Mr. Basoff, was:

"(1) The advantages that could be gained from the establishment of one contract audit agency within the Department of Defense appear to be of such significance that this matter should be given prompt consideration by the highest appropriate officials in the Office of the Secretary of Defense."

Other agreed-on recommendations dealt primarily with steps which might be taken to improve the audit service and the relationship between the audit agencies and the procurement agencies. The full text of the report is contained in the report on hearings for the Department of Defense appropriations for 1960 before the subcommittee of the Committee on Appropriations, House of Representatives, 86th Congress, 1st session, "Part 5, Procurement," at page 146. Testimony by Mr. McNeil, Assistant Secretary of Defense (Comptroller), on March 4, 1959, before the same subcommittee, "Part 1, Operation and Maintenance," at page 41, indicates that the recommendations of the survey teams are being given serious consideration by him as evidenced by the following statements:

"There were a number of recommendations in their report. Probably the most important one recommended a single contract audit agency for the Department of Defense instead of the present three separate agencies.

"It is possible that that is the right answer. We do not know for sure.

"We have, I believe, made progress, not toward a single agency, but trying to get some of the benefits that one might get from a single agency by having only one department audit all contracts held by any particular contractor regardless of the service involved. We have not felt we would get too much advantage by putting the audit agencies together in the past, although these people thought we would have better relations with industry and more uniform application of our audit criteria if we had the single agency.

"At the present time we are taking the northeast section of the country and trying to gather information as to what changes would be required, what advantages we would get, what manpower savings we would achieve.

"There are some attractive features to it. As yet I am not sure, however, that it is something we ought to do."

Our inquiry disclosed that the gathering of information on the northeast section of the country, mentioned by Mr. McNeil, has not been concluded. Therefore, data upon which to estimate the savings in manpower and overhead costs that might be expected to result from a consolidation of the audit agencies are not available to us. The report of the survey teams of public accountants similarly contained no comparative cost information. However, among the advantages predicted by the survey teams, which do not necessarily reflect themselves in cost savings, are (1) better utilization of manpower, particularly of supervisory personnel; (2) efficiency of operation; (3) improved recruiting and training; (4) elimination of different instructions and policies; (5) improved communication channels; and (6) uniformity in dealing with industry. Concerning the last, the report pointed out that, while the audit services have adopted a policy of assigning all audit work at a plant of a particular contractor to one audit service, audit cognizance of a contractor changes occasionally from one service to another, causing organization and personnel problems of each of the two services involved and requiring adjustment to new personnel and procedures by both the contractor and the one or more contracting officers involved.

It should be pointed out that the recommendation of the survey team for consolidation of the audit agencies would involve only the consolidation of contract audit activities, leaving internal audit activities under the jurisdiction of the three separate audit agencies of the three military services.

The consolidation of contract audit activities would not necessarily relieve industry of the requirement of complying with three different procedures and different interpretations of the Department of Defense regulation on contract cost principles as was suggested by Mr. Basoff. The agency auditors act as advisers to the respective contracting officers in each of the military services and, therefore, the final determination of allowable costs or of the reasonableness of costs for contract pricing rests with the agency contracting officer and not with the auditor. In fact, except for cost-type contracts, the agency auditor rarely performs an audit unless requested to do so by the contracting officer.

Conclusion

We believe that statutory authorization to consolidate the three audit agencies exists in the Department of Defense Reorganization Act of 1958 (Public Law 85 500, August 6, 1958) and that transfer of funds necessary to effect a consolidation is authorized in section 407 of the National Security Act Amendments of 1949 (63 Stat. 590). The decision whether to consolidate is one which cannot be made without due deliberation and careful evaluation of probable advantages and disadvantages, and it would appear that the Department of Defense should take aggressive action in order to arrive at an early decision in this matter.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.C., February 18, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee, Congress of the United States.

DEAR MR. CHAIRMAN: This will acknowledge your request for the names of former Secretaries of Defense, including Under Secretaries and Assistant Secretaries who have been in the Department of Defense and are now employed by companies now listed among the top 100 companies doing business with the Defense Department.

The names of these individuals are included on the attached list.

Sincerely,

PERRINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

FORMER DOD OFFICIALS ON "100-COMPANY"
LIST, FISCAL YEAR 1959

NAME AND COMPANY

William C. Foster, vice president, Olin Mathlieson Chemical Corp.
 Roger Kyes, vice president, General Motors Corp.
 Walter G. Whitman, head of chemical energy department, Massachusetts Institute of Technology.
 Frank Pace, chairman, General Dynamics Corp.
 Earl D. Johnson, president, General Dynamics Corp.
 Dan A. Kimball, president, Aerojet General Corp.
 Edwin V. Huggins, vice president, Westinghouse Electric Corp.
 Roger Lewis, vice president, Pan American World Airways.

FORMER DEPARTMENT OF DEFENSE
POSITION

Deputy Secretary of Defense, September 1951 January 1953.
 Deputy Secretary of Defense, February 1953 May 1954.
 Chairman, Research and Development Board, August 1951 June 1953.
 Secretary of the Army, April 1950-January 1953.
 Under Secretary of the Army, October 1952 January 1954. Assistant Secretary of the Army (Research and Materiel) April 1952 October 1952. Assistant Secretary of the Army, May 1950-April 1952.
 Secretary of the Navy, July 1951-January 1953.
 Assistant Secretary of the Air Force (Materiel), November 1951-February 1953.
 Assistant Secretary of the Air Force (Materiel), April 1953-September 1955.

MISCELLANEOUS PAPERS RELATING TO TRANSPORTATION COSTS
IN THE DEPARTMENT OF DEFENSE

ASSISTANT SECRETARY OF DEFENSE,
 SUPPLY AND LOGISTICS,
 Washington, D.C., January 29, 1960.

Hon. PAUL H. DOUGLAS,
 U.S. Senate.

DEAR SENATOR DOUGLAS: Your letter to the Secretary of Defense, dated January 13, 1960, requested information on Department of Defense transportation costs. The following items are numbered to correspond with the listing of your letter and refer to fiscal year 1959.

(1) Total transportation bill: Air, \$435,580,000; ocean, \$414 million. Service within the United States by highway, \$240 million; by railroad, \$177 million; by inland waterways, \$5 million. The above rounded amounts total \$1,271,580,000.

(2) The sum of \$110 million was expended for the transportation of passengers within the United States by all modes. Costs for passenger travel to and from overseas areas were \$72,400,000 by ocean transport. The military services spent \$82,338,000 with the Military Air Transport Service for passenger transportation. Forty-eight and two-tenths millions of dollars of this amount went to commercial air carriers. The remainder was used for MATS military airlift including troop carrier and domestic aeromedical evacuation.

(3) The cost of transportation of household goods was approximately \$200 million, worldwide. This figure includes packing, crating, and related costs.

(4) Cost figures for the storage of household goods will be forwarded at a later date.

(5) The movement of privately owned vehicles to and from overseas areas amounted to \$40 million. Of that figure, \$30 million was for transportation and \$10 million for terminal charges in the United States and overseas.

(6) The total number of household goods shipments within the United States by all modes of transportation was 584,400. The division between carload and less carload shipments is not available.

(7) The industrial fund cost of Military Sea Transportation Service operations was \$414 million of which \$242 million was for procurement of commercial lift.

(8) The industrial fund cost of operating that portion of the Military Air Transport Service that provides airlift service within the Department of Defense was \$274,340,000 of which \$70,350,000 was for commercial airlift.

(9) The cost of other air transportation service amounted to \$161,240,000. This figure represents the cost of commercial airlift other than that procured by MATS. It includes the Air Force Logair program, the Navy's Quicktrans program, individual travel, and Government bill of lading traffic.

It will be noted the movement of household goods and privately owned vehicles account for large amounts of the Department of Defense transportation bill and represent entitlement expenditures to members of the Armed Forces and their dependents. Pertinent statutes are section 803(c) of the Career Compensation Act of 1949, as amended (48 Stat. 802), 10 U.S.C., sections 4748, 6157, and 6748.

I trust this information will be helpful to the committee.

Sincerely yours,

PERKINS McGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

(Prepared by the General Accounting Office, December 31, 1959)

An approximation of the Government's annual freight shipments and the related costs is computed as follows:

	Hull carriers	All other carriers
Number of vouchers, fiscal year 1959.....	104,612	1,042,806
Average number bills of lading per voucher.....	3.32	3.65
Number of shipments.....	346,870	3,806,466
Average cost per bill of lading.....	\$497.15	\$212.15
Total transportation cost.....	\$167,464,077	\$769,155,492
Total.....	\$666,970,379	

The above computations do not include:

- (1) Any transportation costs for f.o.b. destination procurements.
- (2) Only part of the transportation costs reimbursed to cost contractors.
- (3) Foreign transportation costs of the Defense Department.
- (4) Only a part of transportation costs for ICA shipments.

Freight vouchers, all modes other than rail

	Household goods	Motor	Freight for warders	Air	Steamship	Pipelines	REA	Unclassified	Total, all modes except rail
July 1958.....	29,449	27,136	2,678	2,033	2,920	41	6,767	2,269	73,223
August 1958.....	31,129	27,898	2,531	2,068	2,969	39	5,735	2,079	77,478
September 1958.....	41,268	30,011	2,882	2,845	3,472	54	6,539	2,064	89,265
October 1958.....	46,518	30,175	2,852	2,659	4,273	50	7,851	3,374	97,732
November 1958.....	30,732	27,039	2,909	2,516	3,089	46	6,569	1,151	80,972
December 1958.....	38,448	29,690	3,230	3,120	3,243	65	7,922	1,581	87,299
January 1959.....	35,138	32,292	3,179	2,070	1,857	54	8,531	4,144	87,265
February 1959.....	33,420	28,283	3,518	1,857	2,446	57	9,064	3,588	82,243
March 1959.....	30,126	33,289	3,949	2,396	3,029	63	7,207	3,632	92,601
April 1959.....	37,369	31,578	4,618	2,693	2,704	67	7,755	3,687	93,331
May 1959.....	34,775	31,360	3,842	2,270	3,159	64	7,281	3,075	86,926
June 1959.....	39,607	34,518	4,140	2,685	3,736	68	6,964	3,503	95,641
Total.....	440,079	366,229	40,279	29,132	37,407	648	88,645	24,487	1,042,906

Prepared by the General Accounting Office.

IMPACT OF TRANSPORTATION OF HOUSEHOLD GOODS OF MILITARY AND CIVILIAN PERSONNEL ON THE HOUSEHOLD GOODS CARRIERS

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS.

Washington, D.C., June 4, 1959.

Memorandum for:

- The Assistant Secretary of Defense (Comptroller).
- The Assistant Secretary of Defense (Manpower, Personnel, and Reserve).
- The Assistant Secretary of the Army (Logistics).
- The Assistant Secretary of the Navy (Material).
- The Assistant Secretary of the Air Force (Materiel).

Subject: Review of Department of Defense policies governing the transportation of household goods of military and civilian personnel.

It has been repeatedly contended by congressional, military, and commercial transportation interests that the present Department of Defense policies governing the transportation of household goods of military personnel (1) impose an enormous administrative workload on the Department of Defense; (2) encourage unethical practices by carriers; (3) result in substandard service; and (4) have an adverse effect on the morale of military personnel.

In addition, questions have been raised as to (1) whether the same method should be employed in the domestic shipment of household goods of military personnel (currently under the Government bill of lading) and civilian personnel (currently under the commuted allowance); (2) whether limitations should be established concerning the number of carriers an agent may represent; (3) whether preference should be given in all instances to carriers with terminal facilities within a reasonable proximity of shipping activities; (4) the need for and cost of servicing household appliances incident to transportation.

Recently, officials of four major household goods carriers, at a meeting sponsored by Senator Bridges, recommended that the present policies be changed to permit military personnel being transferred to select, from a list of low-cost qualified carriers, the carrier which will move their household goods, without regard to equitable distribution, and that the remaining traffic for which the property owners did not desire to specify a preference be rotated among low-cost qualified carriers.

In view of the foregoing we have initiated a thorough review of Department of Defense policies governing the transportation of household goods of military and civilian personnel by a Department of Defense team under the chairmanship of a member of my staff. The objective of the review is to determine the effectiveness of current policies and recommend what changes, if any, should appropriately be made. Additional tentative guidelines are provided in the attached brief. It is anticipated that approximately 4 months will be required for completion of the review.

It will be appreciated if you would designate an appropriate representative to participate full time in the subject review, effective June 10, 1959. It is requested that the name of your designee be furnished by telephone (extension 57081) not later than June 9, 1959.

PHILIP LEBOUTILLIER, Jr.,
Deputy Assistant Secretary of Defense (Supply and Logistics).

GUIDELINES FOR REVIEW OF POLICIES GOVERNING THE SHIPMENT OF HOUSEHOLD GOODS OF MILITARY AND CIVILIAN PERSONNEL

I. PRESENT POLICIES

A. Present policies provide for the shipment of household goods of military personnel as a completely managed and controlled Government operation employing the Government bill of lading, with executing shipping and transportation officers selecting carriers and directing movement. In arranging for transportation these officers are required to give top consideration to quality of service and lowest overall cost, and must equitably distribute traffic among carriers who are competitive, with full consideration given to any preference expressed by the owner for the use or nonuse of a particular carrier when it does not impair equity in distribution of traffic.

B. Civilian personnel transferred between points within the United States normally arrange for the movement of their own household goods and are given an allowance for this service in accordance with commuted rates promulgated in Bureau of the Budget Circular A-37. When transferred to, from, or between points overseas, their household goods are shipped by transportation officers under Government bills of lading or similar documents.

II. NEED FOR REVIEW OF PRESENT POLICIES

A. It has been repeatedly contended by congressional, military, and commercial transportation interests that the present DOD policies governing the transportation of household goods of military personnel—

1. Impose an enormous administrative workload on the Department of Defense by requiring shipping activities to make all arrangements with carriers, maintain records and pertinent files, inspect carriers' facilities and performance, etc.

2. Encourage unethical practices by carriers, such as excessive packing, unnecessary servicing of household appliances, etc.

3. Result in substandard service by preventing free competition among transportation companies.

4. Adversely affect the morale of military families by denying or interfering with family prerogatives and decisions in the movement of their personal effects.

B. In addition, questions have been raised as to (1) whether the same method should be employed in the domestic shipment of household goods of military personnel (currently under the Government bill of lading) and civilian personnel (currently under the commuted allowance); (2) whether limitations should be established concerning the number of carriers an agent may represent; (3) whether preference should be given to carriers with terminal facilities within a reasonable proximity of shipping activities; and (4) the need for and cost of servicing household appliances incident to transportation.

C. Recently, officials of four major household goods carriers, at a meeting sponsored by Senator Bridges, recommended that present policies be changed to permit military personnel being transferred to select from a list of low-cost qualified carriers, the carrier which will move their household goods, without regard to equitable distribution, and that the remaining traffic for which the property owners did not desire to specify a preference be rotated among low-cost qualified carriers.

D. Because of the foregoing it is considered essential that a thorough review of this subject be completed as promptly as possible on a representative worldwide basis by a Department of Defense team under the chairmanship of a staff member of the OASD (S. & L.). The objective of this review will be to determine the effectiveness of DOD policies and recommend what changes, if any, should appropriately be made.

III. METHOD OF REVIEW

A. Pertinent information will be obtained from—

1. Each military department headquarters office of primary responsibility.

2. Each transportation single manager operating headquarters.

3. The disbursing offices responsible for payment of household goods transportation vouchers for the military departments.

4. Offices of primary responsibility at a typical oversea command headquarters.

5. Offices of primary responsibility and a cross section of military personnel and civilian employees at representative installations of the military departments within the United States and overseas.

6. The General Accounting Office Transportation Division.

7. Civilian agencies of Government.

8. Military water terminals.

9. Corporations with national moving accounts.

10. Operating headquarters of a representative number of household goods van carriers and freight forwarders.

B. The review will have as its primary objective a determination of facts and the development of recommendations with respect to the matters set forth in section II herein and related questions. A part of this review will include a determination of the methods employed for the movement of household goods of officials and employees by other Government agencies and by corporations with national moving accounts.

C. The review will be guided by the following principles:

1. Preservation of the best possible service at the lowest possible reasonable cost to the Government.

2. Minimum possible involvement in the affairs of the military family.

3. Elimination to the maximum extent of administrative overhead.

4. Minimum interference with free competition among transportation companies.

5. Recognition of the importance of preserving a national transportation system adequate to meet the needs of national defense.

6. Maximum practicable consistency with commercial practices.

D. The review should be made by a select and knowledgeable team, comprised of one representative each from the following elements of the Department of Defense:

OASD (S. & L.)—Chairman

OASD (Comptroller)

OASD (M.P. & R.)

Department of the Army

Department of the Navy

Department of the Air Force

E. The review should be completed within 4 months from the date of initiation.



NUMBER 4500.13
DATE February 20, 1958

ASD(S&L)

Department of Defense Instruction

SUBJECT Transportation of Household Goods of Uniformed Personnel by Motor Van Carriers

Ref.: (a) DoD Instruction 4500.13, subj. as above, Mar. 15, 55 (cancelled herein)

I. REISSUANCE AND PURPOSE

- A. This Instruction is a reissuance of Reference (a) with revisions necessary to make current the regulations set forth in the inclosure.
- B. The purpose of this Instruction is to establish a uniform basic regulation for the Military Departments governing the shipment of household goods of their uniformed personnel by motor van carriers, and to establish common requirements upon such carriers.

II. CANCELLATION

Reference (a) is hereby cancelled.

III. APPLICABILITY

When the Military Departments ship household goods of their uniformed personnel by motor van carriers to, from, or between points in the Continental United States, such shipments will be forwarded in accordance with the regulation contained in Inclosure 1.

IV. REQUIRED ACTION

Existing regulations of the Military Departments will be modified if necessary to conform to this Instruction, and two copies of such revised regulations shall be furnished the Assistant Secretary of Defense (Supply & Logistics) within ninety days after receipt of this Instruction. Two copies of any subsequent clarifications of or changes to the regulations implementing this instruction shall be forwarded to the Assistant Secretary of Defense (Supply & Logistics) for information within thirty days after publication.

V. EFFECTIVE DATE

This Instruction shall become effective on the date of issuance.

Inclosure - 1

Regulations for Transportation
of Household Goods by Motor Van
Carriers, w/4 attachments

C. P. Milne

C. P. MILNE
Acting Assistant Secretary of Defense
(Supply and Logistics)

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4500.13
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REGULATION FOR TRANSPORTATION OF
HOUSEHOLD GOODS BY MOTOR VAN CARRIERS

1. Purpose

The purpose of this regulation is to establish uniform procedures to be followed by the Military Departments in the shipment at Government expense of household goods of their uniformed personnel by motor van carriers to, from, or between points in the Continental United States.

* 2. Statutory Authority and Basic Entitlements *

- * a. Section 303(o) of the Career Compensation Act of 1949, as amended (63 *
* Stat. 802), and the Missing Persons Act, as amended (56 Stat. 143), *
* provide statutory authority for the transportation of household goods *
* of uniformed personnel at Government expense. The former Act provides *
* in part that "...under such conditions and limitations and for such *
* ranks, grades or ratings and to and from such locations as may be *
* prescribed by the Secretaries concerned, members of the uniformed *
* services...in connection with a change of station (whether temporary *
* or permanent) (shall be entitled) to transportation (including packing, *
* crating, drayage, temporary storage and unpacking) of baggage and *
* household effects, or reimbursement therefor, to and from such loca- *
* tions and within such weight allowances as may be prescribed by the *
* Secretaries, without regard to the comparative costs of the various *
* modes of transportation." However, disregard of comparative costs of *
* the various modes of transportation is authorized only to the extent *
* carriers within the mode which would produce the lowest over-all cost *
* to the government can not provide the required services satisfactorily. *
- * b. Basic entitlements established under the aforementioned authorities *
* are set forth in the Joint Travel Regulations promulgated jointly by *
* the Secretaries of the Departments of Army, Navy, Air Force, Treasury, *
* Commerce, and Health, Education, and Welfare. *

3. Selection of Carrier

When, in the judgment of the _____ officer, commercial van service is to be used, selection of the carrier will be based on the requirements of the individual shipment, the carrier's ability to perform the required services satisfactorily, and the cost of such services to the Government. In determining costs, consideration will be given to rates and charges in all applicable rate tenders and tariffs. When a given shipment must be held at an in-transit facility prior to line haul movement for consolidation with other shipments, for storage-in-transit, or for any other reason, the carrier which is selected must have, and place the shipment in, a satisfactory facility sufficiently near (as determined by the _____ officer at origin) to permit ready inspection of the facility and the household goods. Shipments will be tendered only to carriers who are qualified, willing, and able to provide the service which will, in the judgment of the _____ officer, serve the best foreseeable interests of the Government and the property owners. Carriers to which shipments are tendered must have proper operating rights from origin to destination or must have made satisfactory arrangements

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for joint carriage with other carriers properly qualified under Part II of the Interstate Commerce Act, as amended, or the laws of the State having jurisdiction of the carriage; provided, however, that no carrier shall be eligible to accept shipments unless it has executed and filed with the _____ officer at origin a Household Goods Service Tender which conforms with Attachment 1 hereto. If the destinations are beyond the territory authorized in its operating certificate, the carrier must also have filed with the _____ officer a Service Tender jointly executed by it and such other duly certificated carrier or carriers as will participate in the joint carriage of the shipments.

4. Distribution of Traffic

- a. Subject to the conditions previously set forth, traffic will be equitably distributed among those qualified carriers affording the lowest over-all cost to the Government. Each _____ officer will maintain a list of qualified carriers as well as records indicating the distribution of traffic. Records of traffic distribution will be maintained according to tonnage or total revenue, including all charges (except storage-in-transit) accruing in connection with the shipments, by destination state or overseas area. Traffic will be distributed according to originating carrier rather than according to agent; e.g., the amount of traffic tendered to a carrier having a single agent will be equal to that received by a carrier with multiple agents in the same metropolitan area, other factors being equal. When a joint carriage arrangement is utilized, the full weight of the shipment will be charged to each participating carrier holding authority to serve the origin point.
- b. Carriers providing unsatisfactory service may be removed from the list of those eligible to receive traffic. At the time of such removal a written notice will be forwarded to the carrier concerned stating, as a minimum, the reason(s) for the removal and the action required of the carrier before it will be reinstated. A copy of this notice will be sent to the home office of the carrier. In addition, a copy will be sent to the Headquarters, Military Traffic Management Agency, Washington 25, D. C., when a carrier is removed because of unsatisfactory service within the United States.

5. Rate Tenders

Tenders by motor van carriers of rates or charges below those in tariffs will be in writing and will contain a provision that they may be cancelled or modified only by written notice of not less than thirty days by either party to the other, except that a shorter notice may be given by mutual agreement of the parties concerned. Such tenders will be filed in the local shipping office. No review by, or distribution to, higher authority is required for such tenders unless requested by that authority.

6. Engagement of Service

- a. Subject to the exceptions noted in paragraph 6b, Government bills of lading will be used to obtain line-haul transportation of household goods by motor van carriers and authorized accessorial services performed in connection therewith, such as packing, drayage (at origin and destination, storage-in-transit, unpacking at destination, etc. Such Government bills of lading will be prepared and executed in accordance with regulations of the respective Military Departments. The name of the originating carrier will appear on the bill of lading in the space entitled "name of initial transportation company," and the names of all carriers participating in joint carriage will appear in the space entitled "via," in the order of the performance of service. In addition, the following information will be shown under "Description of Articles" on the Government bill of lading:
- (1) Gross, tare, and net weights, if such information is available at the time the bill of lading is prepared;
 - (2) Number and date of the applicable Household Goods Service Tender;
 - (3) Rate(s) and charge(s) per cwt., or other definable measures applying on the shipment, if ascertainable at the time the bill of lading is prepared. If such rate(s) or charge(s) is not a normally applicable tariff rate(s) or charge(s), the word "Special" will be added in parentheses.
 - (4) Tariff identification or other reference for rate(s) and charge(s).
- b. Purchase orders may be issued in lieu of Government bills of lading for obtaining drayage or other types of local service.
- c. When storage-in-transit is desired, the bill of lading will be annotated accordingly. If the _____ officer desires such storage at origin or destination, the annotation will be "storage-in-transit not to exceed _____ days is authorized and will be at origin" or "storage-in-transit not to exceed _____ days is authorized and will be at destination," as appropriate. If storage is to be at destination and a _____ officer is available at that point, the following notation will be added: "Carrier will notify the _____ officer at _____ (insert name and location of appropriate military activity) of the arrival of this shipment at destination before it is placed in storage." Upon receiving this notification the _____ officer will inform the carrier what disposition should be made of the shipment. The name of the storage warehouse will not be specified by the _____ officer.

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7. Execution and Distribution of Service Tender

The _____ officer will, upon request of a carrier, provide the carrier two copies of the Household Goods Service Tender with Appendices I, II, and III thereto (reproduced locally) for execution. The original Household Goods Service Tender, after execution by the carrier, will be assigned an identifying serial number and retained in the files of the _____ officer. The duplicate copy of the Household Goods Service Tender will be retained by the carrier.

* 8. Execution of Statement of Accessorial Services Performed *

* A statement (DD Form 619) verifying the accessorial services rendered * by a motor van carrier in connection with the line-haul transportation must be executed in triplicate by the motor van carrier and the property owner, when applicable. Sufficient copies of this form will be provided the carrier by the _____ officer.

9. Processing of Government Bills of Lading and Supporting Papers

a. As soon as possible after pick-up of the household goods, the carrier will furnish the ordering activity:

- (1) Two memorandum copies, numbers 6 and 8, of the applicable bill of lading, showing gross, tare and net weights, signature of the carrier's agent, dates of pick-up and dispatch of shipment by the carrier, the transportation rate, and total charges accrued.

(2) One copy of the inventory list.

- * (3) One copy of the completed Statement of Accessorial Services * Performed (DD Form 619) with the words "at origin" added after the name of the shipping activity or installation. (This is required only when accessorial services are performed and so noted on the Government bill of lading.)

b. The carrier will furnish the property owner or his agent at the time of pick-up:

(1) Memorandum Copy No. 9 of the Government bill of lading.

(2) A copy of the inventory list.

* c. Except as provided in f below, the carrier will submit to the origin * _____ officer for the purpose of receiving payment:

- (1) Original and Memorandum Copy No. 5 of the accomplished bill of lading.

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- (2) Original and copy of Public Voucher (Standard Forms 1113 and 1113A).
- (3) Original or certified copies of certificates showing gross and tare weights furnished by a certified weighmaster or obtained from a certified scale.
- (4) Original of Statement of Accessorial Services Performed (DD Form 619).^{*} (This is required only when accessorial services are performed and so noted on the Government bill of lading.)
- (5) Two copies of the carrier's bill of lading, freight bill, or combination form.
- d. Carriers will not be required to furnish a greater number of copies of a Government bill of lading and/or supporting papers than is established in this regulation. In the event any copies of these documents (except the original Government bill of lading) are lost or destroyed, legible photostatic copies of the same size as the document reproduced, are acceptable. If the original Government bill of lading should become lost or destroyed it will be replaced by a Certificate in Lieu of Lost U. S. Government Bill of Lading (Standard Form 1106).
- e. To facilitate timely payment to the carrier, the origin _____ officer, upon receipt of the documents enumerated in c above, will promptly assemble and review the voucher and supporting papers required by the disbursing procedures of the Military Department concerned, and promptly dispatch such papers to the appropriate disbursing office. *
- f. With respect to shipments between the United States and overseas areas under through bills of lading, the carrier will submit the documents enumerated in c above directly to the appropriate disbursing office. *
10. Payment of Transportation and Accessorial Charges to Carrier(s) for Shipments Consigned to Storage-in-Transit at Destination
- a. Payment of Transportation Charges: The payment of transportation charges from the point of shipment to the destination storage point on shipments of household goods forwarded for account of the Department of the Army, the Department of the Navy (including the Marine Corps), or the Department of the Air Force, and stored in transit for account of the Motor Carrier and for ultimate delivery to the Consignee or owner may be made upon completion of the transportation to the carrier's destination storage point and prior to ultimate delivery to the consignee, Provided: The carrier hauling the shipment to the destination storage point certifies as follows over the signature of its duly authorized representative--

"The household goods described on _____
Government Bill of Lading Number
were placed in the carrier's storage warehouse at _____
Destination
_____ on _____ and will be permitted to remain there
warehouse date

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for a period of _____ or such shorter period as may meet
No. of days
 the consignee's or owner's demands. Carrier(s) assumes full
 carrier liability for the shipment during such storage and
 until delivery to the consignee or owner within the designated
 storage period.

" _____
 Signature and title of carrier's
 authorized representative

- b. The certification required above will be made on the covering Government bill of lading except when there is not sufficient space on the bill of lading for this purpose. In the latter case the certification with reference to the appropriate Government bill of lading number may be made on plain paper and securely attached to said bill of lading.
- c. Payment of Accessorial Charges: When transportation charges have been paid as authorized in paragraph 10(a) above, the payment of accessorial charges, if any, accruing against the shipment after delivery into storage may be made upon presentation by the motor carrier of a claim therefor on Standard Form No. 1113, which should bear the same bill number as the carrier's original bill for transportation charges but carrying a letter suffix (Example - No. 12345-A). The claims for accessorial charges must identify the Government bill of lading covering the transportation service, show the basis for the accessorial charges claimed, and be supported by an additional original Statement of Accessorial Services Performed (DD Form 619) for services rendered at destination, signed by the consignee, showing --
- (1) The accessorial services ordered and furnished;
 - (2) Receipt of the shipment by the consignee or owner; and
 - (3) Loss or damage to the shipment, if any
 (Use space captioned "Explanation or Remarks" for this information.)

11. Use of Contract Warehouses vs. Storage-in-Transit for Temporary Storage

- a. When temporary storage of household goods is required in connection with their transportation incident to a change of station, storage-in-transit, as defined in carriers' tariffs, will be used for this purpose except when it is clearly evident that the best interests of the government and the property owner can be served only by the use of contract storage.

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- b. When a determination of the best interests of the government and the property owner is in order with respect to the use of contract warehouses vs. storage-in-transit, it will be made for each owner's goods separately and will involve consideration of all of the following elements:
- (1) The total cost to the government by each method, to include (1) storage charges, (2) in and out handling charges, (3) special dock fees or surcharges, (4) preparation and distribution of procurement papers, (5) preparation, verification and distribution of fiscal documents, and (6) records documents which must be maintained by the government.
 - (2) The extent of liability, in event of loss or damage, of common carriers vs. contract warehouses and the difficulty and expense involved in establishing responsibility and processing claims for loss or damage when both common carrier and contract warehouse are involved.
- c. The _____ officer at origin or destination may make the determination as to whether contract warehouses or storage-in-transit will be used.

Attachments - 4

1. Household Goods Service Tender
2. Appendix I - DD Form 619
3. Appendix II - Packing and Unpacking Requirements
4. Appendix III - Combination Inventory and O.S.&D. Form

4500.13, Feb 20, 58
Att 1 to Incl 1

HOUSEHOLD GOODS SERVICE TENDER

TO: _____
 Name of Installation or Activity _____ Date _____
 Post Office Address _____ Service Tender No. _____
 Name of Carrier _____
 Basic Federal or State Permit No. _____
 Name of Carrier _____
 Basic Federal or State Permit No. _____

1. The undersigned motor carrier(s) (hereinafter called the carrier), representing that _____ (it is) (they are) qualified under Part II of the Interstate Commerce Act and/or laws of the State of _____ to perform van service, offer(s) the following in addition to tariff and legal requirements:

a. All shipments will be moved from origin to destination in vehicles owned or operated by the carrier and under its direct responsibility, or in joint carriage with other duly certificated carriers. Joint carriage is defined for the purpose of this Tender as (1) the physical exchange of equipment between carriers or the receipt by one carrier of equipment from another carrier in furtherance of a through movement of traffic, at a point or points which such carriers are authorized to serve, and the simultaneous interlining of the shipment with the carrier receiving such exchanged equipment, or (2) the interline of shipments between authorized carriers.

b. A notation will be made on the face of the pertinent Government bill of lading or purchase order indicating accessorial services performed and the charges therefor, when applicable.

- c. (1) The carrier will inform the _____ officer at origin of all shipments not dispatched at the end of the seventh calendar day after the day of pickup. It is understood that if a shipment has not been dispatched by this time the _____ officer has the option to remove the shipment from the carrier and engage another carrier to move the shipment to destination. It is further understood that if another carrier is engaged to transport the shipment, settlement of the accrued charges will be made with the initial carrier, except that no charge will be honored for drayage or storage that occurred because of the initial carrier's inability to transport the shipment.
- (2) When the carrier accepts a shipment, both the origin and destination of which are within the scope of its certificated authority, but finds because of unavoidable circumstances

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that it is unable to physically transport the shipment, it may arrange with another duly authorized carrier at origin to perform the required service, provided the substitute carrier has a Service Tender on file with the installation or activity which tendered the shipment. In such cases the carrier which originally accepted the shipment will inform the officer of the name of the carrier to whom the shipment has been transferred. The carrier which originally accepted the shipment will continue to be shown on the bill of lading as the initial carrier and will retain full common carrier liability for the shipment.

d. All packing, materials, vans and equipment, and the loading and unloading of vans, are subject to inspection and approval by the officer or his authorized representative at origin, to be performed in a manner and during such time so as not to restrict or unduly delay the carrier in the performance of its service.

- e. (1) Pickup will be made on the specific date(s) agreed upon between the hours of 7:00 A.M. and 7:00 P.M. unless the property owner gives advance approval to a change in date(s) or hour(s).
- (2) Delivery to military installations will not be made on Saturdays, Sundays or holidays unless the carrier has advised the officer or his representative sufficiently in advance of the arrival of the household goods and the officer or his representative agrees to such delivery. Delivery to the owner's residence will not be made on Sundays or holidays unless the carrier has advised the owner or his representative sufficiently in advance of the arrival of the household goods and the owner or his representative agrees to such delivery.

f. Vehicles used to transport household goods (including those used for intra-city hauls) will be closed furniture vans. The interiors thereof will be clean and sanitary and will be provided with a sufficient quantity of clean sanitized pads, covers, and other protective equipment to insure safe transit and delivery of the household goods. Unless specifically approved by the ordering officer, the owner, or his agent, household goods will not be loaded on the tailgates of vans. When tailgate loading is approved, the load will not extend beyond the surfaces of the tailgate or above the top exterior surface of the vehicle.

g. The tare weight of each vehicle used in the transportation of household goods will be determined by having it weighed prior to the transportation of each shipment, without the crew or any other person thereon, by a certified weighmaster or on a certified scale, and when so weighed the gasoline tank on each such vehicle will be full and the vehicle will contain only such blankets, pads, chains, dollies, hand trucks, and other equipment as is needed in the transportation of the shipment. The carrier will retain in the vehicle, subject to inspection, a weighmaster's certificate or weight ticket for each such vehicle showing the tare weight, the date weighed, and a list of equipment needed to transport the shipment. After the vehicle has been loaded it will be weighed, without the crew or any other person or thing thereon except the load of household goods being transported plus the material and equipment as indicated in the first sentence of this subparagraph, prior to delivery of the shipment, and the net weight will

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be determined by deducting the tare weight from the loaded weight. In the transportation of part loads the provisions of this paragraph will apply in all respects, except that the gross weight of the vehicle containing one or more part loads will be used as the tare weight of such vehicle as to part loads subsequently loaded thereon. Except when otherwise approved by the officer concerned, the bill of lading when submitted for payment by the carrier will be accompanied by such duly certified weighmaster's weight certificate. All tare, gross, and net weights will be properly certified to by the person(s) who ascertains such weights. Constructive weights (seven pounds per cubic foot) will be used only upon authorization of the _____ officer at origin.

h. In conjunction with the owner or his agent, the carrier will prepare in triplicate an inventory list of all articles received, bearing the signature of the owner or his agent together with the signature of the carrier, both certifying to the correctness of the inventory (Appendix III to this tender). (See also paragraph D, Appendix II.)

i. A certificate (DD Form 619) itemizing the accessorial (additional) services performed will be prepared and signed by the carrier and the owner or his agent in connection with household goods shipped under this tender.

j. Packing and unpacking of household goods will be performed in accordance with the requirements attached hereto in Appendix II.

k. (1) As soon as possible after pickup of the household goods the carrier will furnish the ordering activity:

(a) Two memorandum copies, numbers 6 and 8, of the applicable bill of lading showing gross, tare and net weights, signature of the carrier's agent, date of pick-up and dispatch of shipment by the carrier, the transportation rate, and total charges accrued.

(b) One copy of the completed Accessorial Services Certificate, DD Form 619, with the words "at origin" added after the name of the shipping activity or installation. (This is required only when accessorial services are performed and so noted on the Government bill of lading.)

(c) One copy of the inventory list.

(2) The carrier will furnish the property owner or his agent at time of pickup:

(a) Memorandum copy No. 9 of Government bill of lading.

(b) A copy of the inventory list.

(3) The carrier will submit to the origin _____ officer for the purpose of receiving payments:

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- (a) Original and memorandum copy No. 5 of the accomplished bill of lading.
- (b) Original and copy of Public Voucher (Standard Forms 1113 and 1113A).
- (c) Original or certified copies of certificates showing gross and tare weights furnished by a certified weighmaster or obtained from a certified scale.
- (d) Original of Accessorial Services Certificate (DD Form 619). (This is required only when accessorial services are performed and so noted on the Government bill of lading.)
- (e) Two copies of the carrier's bill of lading, freight bill, or combination form.

1. If the carrier loses or destroys any copies of the Government bill of lading (except the original) or supporting papers which are required to obtain payment for services rendered, it will provide the Government with legible photostatic copies thereof, the same size as the document reproduced. If the original Government bill of lading is lost or destroyed, it will be replaced by a Certificate in Lieu of Lost U. S. Government Bill of Lading (Standard Form 1100).

- n. Warehouses used for storage-in-transit will properly protect the property stored therein.
 - (1) Particular attention will be given to the fire protection (e.g., fire resistant construction, fire protection equipment, fire alarm devices, and first aid fire-fighting equipment) afforded the property. It is understood that any violation of lawfully required fire protection and prevention practice will be sufficient basis for the Government to prohibit use of the warehouse concerned for any further storage of household goods at Government expense until the violation has been corrected and action has been taken to prevent a recurrence.
 - (2) There will be adequate protection from pilferage, contamination, flood, rain, dust, moisture, windstorm, heat and cold.
 - (3) There will be no evidence of insect and rodent infestation and there will be an established program, either administered by the warehouse concerned or an outside firm, for the control of insects and rodents.
 - (4) There will be adequate fire aisles, inspection aisles, and aisles for access to the household goods in storage.

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- (5) Good housekeeping practices will be followed. This will include provisions for the collection of used packing and crating materials, crates, and other debris, will prevent the accumulation of excess dust and dirt, and will insure that working supplies and equipment are maintained in an orderly condition.
- n. The following services will be provided as soon as possible after arrival of the household goods at the storage warehouse when the carrier or the warehouseman is informed in writing that the property will remain in storage-in-transit for more than ninety (90) days:
- (1) Rugs, carpets, and upholstered furniture will be protected with moth preventives except when it is determined that they are made of cotton or synthetics such as rayon, nylon, or orlon.
 - (2) In addition to the application of appropriate repellents, rugs, carpets and upholstered furniture will be placed in individual containers or individually wrapped in 60 pound kraft type wrapping paper and secured with pressure sensitive tape or twine. When fumigated rug rooms or cold storage rooms are used, wrapping is not required.
 - (3) Upholstered furniture will be placed on special racks or in special cartons, right side up, so that no articles touch or press against upholstery while in storage.
 - (4) Mattresses which were not placed in cartons at the residence, because storage in transit was not anticipated when the household goods were packed and loaded, will be placed in cartons. All cartons used will have a minimum average bursting strength per square inch of 200 pounds, and will be clean and free from vermin. Foam rubber mattresses will be stored horizontally and not under pressure from other items.

2. This is not a rate tender.

3. The carrier understands that submission of this service tender to the shipping activity is prerequisite to its consideration for transportation of household goods, that it does not obligate the Government in the distribution of traffic, and that such submission indicates that the carrier is qualified, willing, and able to accept shipments from that activity and seeks such business under the terms hereof.

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4. This offer shall be effective upon the date first above written, shall continue in effect until withdrawn by the carrier upon thirty (30) days' notice in writing to the _____ officer (or his successor) to whom tendered, and shall, while effective, be applicable only to shipments of household goods which the undersigned carrier moves and services on Government bills of lading or purchase orders, and shall form a part of the conditions thereof.

(Official's Name and Title)_____
(Name of Carrier)_____
(Official's Name and Title)_____
(Name of Carrier)

Appendices I, II and III

APPENDIX I

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Att 2 to Inco 1

TREATMENT OF ACCESSORIAL SERVICES PERFORMED		Date
INSTRUCTIONS		
Each space under "PACKING SERVICES" and "OTHER SERVICES" will be completed with the appropriate information, or the word "NONE" will be inserted when applicable. Completion of this form is required only when accessorial services are performed and so noted on the Government bill of lading.		
Name of Activity or Installation		
Bill of Lading Number	Shipment Number	Date of Shipment
Place From		To
Name of Owner		Grade Service Number
PACKING SERVICES		NUMBER
BOXES, Wooden		BARRELS: (barrel, drum or specially designed fiber container.)
Not over 5 cu. ft.		CARTONS
Over 5, not over 10 cu. ft.		Not over 12 cu. ft.
Over 10, not over 15 cu. ft.		Over 12, not over 3 cu. ft.
Over 15, not over 25 cu. ft.		Over 3, not over 5 cu. ft.
Over 25, not over 30 cu. ft.		
CRATES, Wooden		MATHEUSI CARTON
Gross measurement of crate, cu. ft. or fraction thereof		WARTHOPE
OTHER SERVICES		
Storage in Transit		Extra pick-up
Number of days at (city and state)	<input type="checkbox"/> Yes	Extra delivery
	<input type="checkbox"/> No	Hoisting or piano carry
		<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No
Explanation or Remarks		
This carrier has performed the accessorial svcs indicated above.		
Name of carrier	Date	Signature and title of carrier's official
The accessorial svcs indicated above were performed by the above-named carrier.		
Date	Signature and grade of property owner	

DD Form 619, 1 DEC 57

Edition of 1 Feb 1955, may be used.

APPENDIX II

PACKING AND UNPACKING REQUIREMENTSA. GENERAL1. BOXES

Wood or fiberboard boxes used as specified hereinafter shall be as follows: wood-oleated fiberboard, wood-oleated plywood, nailed wood, corrugated fiber, or solid fiber boxes. Boxes shall be new or in sound condition; if not new they shall be free of all marks pertaining to any previous shipment and free of any substance injurious to the articles being packed. Boxes may be made of lumber, plywood or solid fiber; they shall be well manufactured and free from imperfections which may affect their utility. Size and spacing of nails will be in accordance with the best commercial practice. All unfinished nails shall be either cement coated or chemically etched.

2. CARTONS

Cartons, new or used, of solid or corrugated fiberboard may be used for packing linens, books, bedding, mattresses, lamp shades, draperies or other articles. All cartons used shall be adequate for the use employed, and must be dry, clean, and free from vermin, acid, paint, grease, and other substances injurious to the owner or his agent or to the articles packed. After packing, cartons must be glued, stapled or sealed by taping lengthwise at the joint on top and bottom. The sidewalls and ends of the corrugated or solid fiber cartons shall be of a minimum average bursting strength per square inch of 200 pounds. With the exception of mattress cartons, the inside dimensions of the carton, length, width and depth totaled, shall not exceed 75 inches with a weight limitation of 65 pounds. Egg crates, orange crates and similar type boxes will not be used. When determined by the _____ officer as necessary to assure protection and safe transportation of the articles, boxes may be used in lieu of cartons.

3. BARRELS AND FIBER DRUMS

Wooden barrels, fiber drums, or other drum type containers with a capacity of not less than 5 cubic feet are to be used for packing glassware, chinaware, bric-a-brac, table lamp bases, and other fragile articles. All such containers, whether new or used, must be clean, in sound condition and free of all substances which might be injurious to the owner or his agent or to the material packed therein. Fiber drums will not contain more than 120 pounds and shall have a sidewall bursting strength per square inch of a minimum average of 400 pounds. Corrugated fiberboard containers of not less than 5 cubic feet may be used in lieu of a barrel or drum type container for packing. The sidewalls and ends of the container shall be of a minimum bursting strength per square inch of 350 pounds. Not more than 120 pounds of material shall be packed therein. When items are wrapped with shredded paper or excelsior there shall be at least four inches of cushioning material on the top and bottom of the container and two inches of cushioning material along the sides. This protection is not required, however, when "Master Pack," "Kleen Pack," or other similar

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methods are used. The sum of the interior horizontal and vertical girths shall be not less than 157 inches for wooden barrels, fiber drums, or other drum type containers. The cubic capacity of corrugated containers may be determined by actual measurements.

4. FILLER MATERIAL

Good quality wood excelsior, wood wool excelsior, shredded paper, "kimpak," newspaper, fiberboard, corrugated fiberboard or kraft paper shall be used as a filler for general packing. Filler material shall be clean, dry and free from vermin or any substances injurious to the articles to be packed.

5. PADDING

New or good quality used wool excelsior or shredded paper pads, or other equally suitable material, shall be used when required.

6. PAPER WRAPPING

All wrapping paper used shall be new or clean, Kraft type of not less than 30 pounds weight except as otherwise provided herein. Each item of silver ware, silver ornamentation, or brass that is not coated to prevent tarnishing will be completely wrapped in nontarnish tissue paper.

7. PAPER - WAXED OR TREATED

All waxed paper used shall be manila wax or equivalent of not less than 30 pounds weight. Treated paper may be used if of "Butcher" paper type, free from creases and folds.

8. MANNER OF PACKING

1. All packing shall be performed in a manner requiring the least cube measurement, producing packages that will withstand normal movement by motor van without damage to container or contents and at a minimum of weight. Further, the number and weight of containers will not be greater than necessary to accomplish efficient movement.
2. All finished surfaces shall be so protected as to prevent scratching or marring.
3. The use of damp, wet, or unclean packing materials is prohibited.
4. Care shall be exercised to prevent loss or damage of household goods in process of packing, and the carrier shall properly and amply protect household effects in its possession by proper protective measures and by not piling effects in a manner likely to cause damage.
5. When necessary for safe transportation, or storage-in-transit, all barrels or fiber drums shall be securely headed. When headed, the barrels or fiber drums shall be marked "This End Up."

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C. SPECIFIC

1. BOOKS

Books shall be placed in cartons. All books of similar size shall be packed together in rows. Pads of solid or corrugated fiberboard shall be inserted between rows and packed tightly, wedged with pads or paper if necessary to fill out the carton and prevent chafing. Books normally shall be packed not more than two rows high in a carton.

2. CHINAWARE, GLASSWARE, CROCKERY, LAMPS, CLOCKS, JARDINIERS, STATUARY, VASES, AND BRIC-A-BRAC

Each barrel, fibre drum or other container shall be padded in the bottom with sufficient excelsior, shredded paper, newspaper or other adequate cushion material. Items shall be wrapped separately, except groups of flat items properly divided may be wrapped in bundles properly cushioned. The heaviest items shall be placed in the bottom, the lightest items on top. Barrels, fibre drums, and other containers shall be packed as compactly as possible. Padding shall be pressed gently but firmly around each item and as many pieces be put in the containers as possible with safety. Any surface or edge of an article that is fragile must be protected by cushioning. Stewware shall be packed in containers bottom side up, and bundles of flatware shall be placed in containers on edge.

3. ELECTRICAL EQUIPMENT - FANS, HEATERS, PORTABLE STOVES, SUNLAMPS, VIBRATORS, AND LIKE ITEMS

When necessary to protect the items for safe transportation or storage-in-transit they shall be completely wrapped in paper or newspaper and packed in a carton with enough padding to provide insulation necessary to prevent contact of one article with another and to eliminate movement of any article in the container. When packing is not necessary, the items shall be properly wrapped or padded for protection.

4. KITCHENWARE

All kitchenware, flat irons, electric irons, etc. shall be packed and padded into cartons. The heavier items shall be kept to the bottom of the container and the lighter items to the top of the container.

5. LINEN, DRAPERIES, CLOTHING, AND LIKE ITEMS

When not considered as safe for carriage in drawers, chests, dressers, trunks, etc., linen, towels, bedding, draperies, clothing (unless a wardrobe is to be used), small pictures, mirrors and other items of this type shall be packed carefully into cartons which shall be properly sealed at residence.

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Att 3 to Incl 1**6. MIRRORS, PICTURES, GLASS TABLE TOPS AND STONE TABLE TOPS**

Large mirrors shall be wrapped and packed in a crate. Not more than four furniture mirrors will be packed in any one crate. Specifications for packing mirrors are applicable to glass tops, large glass-faced pictures, and all other glass articles of this type. Stone table tops shall be packed separately.

7. LAMPSHADES

All lampshades, Christmas ornaments, small toys and other small items easily crushed, shall be wrapped and placed in cartons and shall be insulated from the carton walls and from other items. Silk and parchment lampshades shall be wrapped individually with clean paper, not newspaper, and placed in cartons and cushioned to prevent shifting or damage.

8. MATTRESSES

Mattresses with innersprings and those containing foam rubber, or mattresses consigned to storage, must be placed in cartons at the residence. All cartons used shall have a minimum average bursting strength per square inch of 200 pounds. Mattresses without internal springs and those not containing foam rubber must be placed in cartons, bags or similar containers at the residence. Paper bags, if used, shall be of not less than 60 pound Kraft paper. All containers used must be clean and free from vermin.

D. INVENTORY

The carrier will use diligence to record in the inventory (not applicable to the contents of pieces of furniture or containers of any type) any unusual conditions of the goods so received. The inventory shall list the articles of furniture and words such as "Household goods" or other general descriptive terms will not be used. Special care shall be exercised to ensure that the inventory reflects the true condition of the property. General terms such as marred, scratched, soiled, worn, torn, gouged, and the like shall be avoided unless they are supplemented with a statement describing the degree and location of the exception. (Care in the preparation of the initial inventory will assist in protecting the owner of the property and the carrier in the event of loss and/or damage. Appendix III is a suggested format for the body of the inventory form but its use is not mandatory. Inventory forms which specify name of owner of goods, the date of shipment and name of carrier, and contain on the form an explanation of the condition symbols and location symbols are acceptable.) However, the carrier will provide means of recording on the inventory prepared by the initial carrier exceptions and the nature of such exceptions to the initial listing in each unloading, warehousing, and reloading of the goods. Household goods will be properly identified at time of pickup by affixing a tag or tape (or

marking in case of containers) containing identification information to each article (not applicable to individual items in containers of any type). Contents of containers packed by carriers or their agents will be indicated thereon in general terms such as linens, dishes, kitchenware, etc. Cubic measurements will be indicated in a conspicuous location on all carrier packed containers. Each lot will be separately identified and each article will be assigned a number which must correspond with the piece number as indicated in the inventory. The type of identification used and the method of affixing it to the article will be such as not to injure any article so identified.

M. PREPARATION OF ARTICLES

Articles having surfaces liable to damage by scratching, wearing, or chafing will be wrapped at time of loading in furniture pads, covers, burlaps or wrappers which are a part of the carrier's regular equipment. Air and all servicing necessary to protect the mechanical or other functions of washing machines, refrigerators, ironers, sewing machines, vacuum cleaners, heaters, ranges, radios, clocks, phonographs, television sets, deep freezers, dryers, and other similar items during their transportation shall not be at the responsibility or the expense of the carrier. The servicing of such items shall be provided prior to delivery of the shipment to the carrier for transportation and without expense to the carrier.

N. PACKING AND LOADING AT ORIGIN

Packing and loading at origin shall include removing from the owner's premises all empty containers, packing materials, and other debris accumulated incident to packing and loading, unless relieved of this responsibility by the owner.

O. UNLOADING AND UNPACKING AT DESTINATION

Unloading at destination shall include, when goods are delivered to the owner's residence, the placement of the goods in appropriate rooms of the dwelling so they are readily available to the owner's use. Unpacking service shall be performed unless specifically waived by the owner, when goods are delivered to the owner's residence at destination either direct from the carrier's van or from a storage-in-transit warehouse. Unpacking service shall consist of the following: (a) Unpacking all barrels, boxes, cartons, and/or crates originally packed by the carrier, and placement of the contents so they are readily available to the owner; (b) recording all damages found while unpacking and furnishing the owner a copy of such records; and (c) removing from the owner's premises all empty containers, packing materials, and other debris, accumulated incident to unpacking, unless specifically requested otherwise by the owner.

Military-owned supply system stocks in hands of contractors as of June 30, 1950

	Thousands
Army.....	\$71, 100
Navy.....	66, 610
Marine Corps.....	1, 400
Air Force.....	(1 ²)
Total.....	139, 010

¹ Not available.
² Stocks in hands of contractors (Government-furnished material) not available from the Air Force inventory accounting system of supply management reports.

ASSISTANT SECRETARY OF DEFENSE,
 SUPPLY AND LOGISTICS,
 Washington, D.C., February 23, 1950.

Hon. PAUL H. THOMAS,
 Chairman, Joint Economic Committee,
 U.S. Senate.

DEAR MR. CHAIRMAN: Your letter to the Secretary of Defense, dated January 13, 1950, requested certain information on Department of Defense transportation costs and costs for storage of household goods.

In my reply of January 20, 1950, I advised that the cost figures for household goods, requested as item No. 4 of your letter, would be furnished at a later date. Accordingly, the following further information is submitted in response to your request:

Department of the Army

Fiscal year 1950:	
Commercial storage.....	\$6, 080, 000
Government storage, packing, and crating.....	278, 200
Fiscal year 1950 (estimated):	
Commercial storage.....	8, 350, 000
Government storage, packing, and crating.....	208, 578

Department of the Navy (including Marine Corps)

Fiscal year 1950:	
Commercial storage.....	\$1, 880, 111
Government storage, packing, and crating.....	134, 828
Fiscal year 1950:	
Commercial storage.....	2, 072, 000
Government storage, packing, and crating.....	131, 000

Department of the Air Force

The budget and accounting structure of the Air Force as presently established does not provide for identification of funds expended solely for the cost of storing household goods either commercially or in Government warehouses. The expenditures of such funds for the fiscal year 1950 could be developed only by a research of many thousands of individual vouchers and the tabulation of the costs listed thereon.

The estimated cost for fiscal year 1950 is \$7.2 million for commercial storage. This estimate is based upon average rates contained in commercial contracts and the anticipated number of lots that will be stored. Costs for Government storage are not available but the amount of household goods belonging to Air Force personnel in Government warehouses is very small.

It should be noted that since April of 1953, 97 percent of all household goods generated for storage has been placed in commercial warehouses.

If the committee desires any further information on this subject, do not hesitate to call upon me.

Sincerely yours,

PHILIP LeBOUTILLIER, Jr.,
 Acting Assistant Secretary of Defense (Supply and Logistics).

MINORITARIAN PATTERN ON SURPLUS PROPERTY AND STOCK FUND
OPERATIONS RELATING THERE TO

FEBRUARY 9, 1960.

MR. BLUMEN H. STAATS,
Deputy Director, Budget Bureau,
Executive Office of the President, Washington, D.C.

DEAR MR. STAATS: In your testimony before the Joint Economic Committee on January 29, 1960, you mentioned some joint studies on utilization and disposal of excess and surplus personal property and also that you were working with GSA in relaxing existing policies under which agencies are required to pay for excess property.

It would be of value to the committee if you would furnish copies of studies made to date in these areas and also copies of any directives and instructions which have been issued in this regard.

With best wishes,

Faithfully,

PAUL H. DOUGLAS,
By FRANK W. McCULLOUGH,
Administrative Assistant.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 19, 1960.

HON. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: In your letter of February 9, 1960, you ask that we furnish to the Joint Economic Committee copies of studies we have made on utilization and disposal of excess and surplus personal property and any directives which have been issued as a result of these studies. Last summer we established a management improvement project on a governmentwide program for utilization and disposal of excess and surplus personal property. Since GSA and DOD had already undertaken studies to determine the extent to which GSA-DOD screening procedures could be streamlined and improved, the Bureau project concentrated on major governmentwide issues and management problems. The specific problems selected for study were set forth in my letter of September 22, 1959, to the heads of those agencies which generate substantial quantities of excess personal property, a copy of which is attached as exhibit A. You will note that the specific problem areas selected for study are--

(a) the extent, if any, to which proper excess property utilization is adversely affected by present governmentwide policies and practices relating to reimbursement for such property;

(b) classification and disposal of scrap;

(c) whether full and appropriate use is being made of excess personal property transferred between Federal agencies;

(d) whether effective controls have been established to assure that excess personal property is considered the first source of supply in agency procurement programs; and

(e) whether a more meaningful governmentwide excess and surplus personal property progress reporting system can be developed.

The study on (a) confirmed that existing policies and procedures relating to reimbursement for excess personal property transferred between agencies has adversely affected maximum utilization. The staff report on (a) is attached as exhibit B. The first two steps toward implementing the recommendations contained in the staff report are letters from the Bureau to GSA (see exhibit C attached), and DOD (see exhibit D attached), requesting changes in existing policies and procedures which will eliminate reimbursement as an obstacle to better utilization of excess property. GSA has informed us that revised GSA regulations which will effectuate our recommendations will be ready for review within a few days. DOD has not had sufficient time to analyze and reply to our letter (exhibit D) which urged that DOD policies be modified to permit the transfer of excess property without reimbursement.

Since studies on problem areas (b) and (e) are not completed, data is not yet available for transmission to the committee.

With respect to problem area (c) the staff concluded, after examining thousands of transfer documents, that hoarding of transferred excess property is not a significant problem. Agency inventory controls are generally adequate to prevent the transfer of unneeded excess property.

The study on problem area (d) is just now getting underway. We expect to determine the effectiveness of agency programs to use excess property as the first source of supply in lieu of new procurement by conducting tests in three OMA regions. A detailed explanation of the test is contained in material attached as exhibit B.

If we can be of further help, please let us know.

Sincerely yours,

ELMER B. STAATS, *Deputy Director.*

EXHIBIT A

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 22, 1959.

The Honorable the SECRETARY OF AGRICULTURE.

MY DEAR MR. SECRETARY: The Department of Defense and the General Services Administration have launched aggressive programs to speedup and improve the system for utilization and disposal of excess and surplus personal property. In order to be successful these programs require active support from all agencies.

The Bureau of the Budget is committed to support the DOD and the OMA programs fully. In addition we are concerned with the budgetary and governmentwide management problems which are involved in utilization and disposal of excess and surplus property.

The Bureau has started an intensive effort leading toward action on some of the fundamental issues which have direct or indirect budgetary or management impact. George C. Taylor, Deputy Director, Office of Plans, U.S. Atomic Energy Commission, has been detailed to the Bureau of the Budget to take the lead in this effort.

I have asked the staff who will work in this area to avoid duplicating or retarding the excellent programs now underway in the Department of Defense and the General Services Administration. Our efforts are to be directed toward an action program to identify and remove any obstacles or modify any policies which stand in the way of maximum results. We intend to avoid detailed analytical reports and concentrate on needed action. Specific problem areas selected for study include--

- (a) the extent, if any, to which proper excess property utilization is adversely affected by present governmentwide policies and practices relating to reimbursement for such property;
- (b) classification and disposal of scrap;
- (c) whether full and appropriate use is being made of excess personal property transferred between Federal agencies;
- (d) whether effective controls have been established to assure that excess personal property is considered the first source of supply in agency procurement programs; and
- (e) whether a more meaningful governmentwide excess and surplus personal property progress reporting system can be developed.

Unless you indicate some other preference, Mr. Taylor will work with the national utilization officer which you have designated in connection with the utilization program launched by the Federal Supply Service. Mr. Taylor may be reached at the Bureau, code 113, extension 686, room 461.

Sincerely yours,

(Signed) ELMER B. STAATS,
Deputy Director.

Identical letter to the following agencies: AEC, Commerce, D/HEW, Post Office, OCDM, FAA, Interior, State, ICA, Justice, NASA, TVA, VA.

EXHIBIT II

NO. 112 - EXCESS PROPERTY PROJECT, FINDINGS AND RECOMMENDATIONS ON THE PROBLEM OF REIMBURSEMENT FOR THE TRANSFER OF EXCESS PROPERTY

(By George C. Taylor, Bureau of the Budget, November 4, 1959)

Problem: To determine whether present Government policies and procedures relating to reimbursement for excess personal property transferred between agencies need to be changed to facilitate and promote maximum utilization of such property.

BACKGROUND

Present policies and practices applicable to the transfer of excess personal property at fair value are derived from section 202, Federal Property and Administrative Services Act of 1949 and subsequent amendments thereto. The act originally (see, 202(e)) required reimbursement, at fair value, with minor exceptions, for all transfers of excess property between Federal agencies. Stringent requirements on reimbursement were included in the act to avoid undue augmentation of specific appropriations and to avoid hoarding of supplies. By 1952, it was apparent that the best utilization of excess property under the act was not being attained and the "fair value" requirements of the act were cited as the principal cause. As a result, Public Law 522, 82d Congress, repealed the mandatory requirement for transfer at "fair value" and liberalized the law to provide a more flexible method for transfer so that greater utilization of excess property could be attained. The revision authorized the Administrator, with the approval of the Director of the Bureau of the Budget, to determine the extent of reimbursement to be made and directed him to "provide policies and methods to promote maximum utilization of excess property." The House and Senate committee reports on the bill which became Public Law 522 cautioned "that it was intended that when regulations are developed, due regard will be given to procedures that will either preclude undue augmentation of specific appropriations * * * or take into account in subsequent appropriations prior transfers of excess property * * *" and, further, that transfers of property be "carefully related to the actual supply needs and inventory situation" in the receiving agency.

GSA IMPLEMENTATION

The "policies and methods" developed by the Administrator and approved by the Bureau to carry out this responsibility, as they relate to reimbursement, appear in GSA Regulation I-III 303.03. (See exhibit A, attached.) These regulations reflect the difficulty of providing administrative procedures which will "promote maximum utilization" and at the same time give due regard to the avoidance of appropriation augmentation. The policy is to require reimbursement at fair value except under specific conditions. The exemptions most frequently used by civil agencies to obtain property without reimbursement are:

(a) When the property is to be used to replace and upgrade existing equipment.

(b) When transfers at one time from one location have a fair value of \$100 or less.

(c) When the agency has need for the property and certifies that it has no available funds to pay fair value (pauper's oath).

(d) When the property requires major repairs or is in poor condition.

Property held in DOD working capital funds are not subject to these exemptions since the authority to price such property rests in the Secretary of Defense. However, DOD working capital fund excess property is available for transfer without reimbursement when the value at standard cost of the line item requested is less than \$500. Plans are underway to raise this ceiling from \$500 to \$3,000, effective January 1, 1960.

Thus, under present policies agencies can acquire excess personal property, except DOD working capital fund excess property, without paying for it if they qualify under the approved exceptions to the general rule and make the appropriate certifications. In fact, over 90 percent of the excess personal property transferred in fiscal years 1958 and 1959 was without reimbursement.

FINDINGS

1. Effect of requirement for reimbursement.

(a) *On utilization.*—Maximum utilization of excess personal property is not being achieved under existing policies. In the three GSA regions visited by the study group (New York, Atlanta, and San Francisco), we found a sufficient number of specific cases where utilization was prevented because of the requirement for reimbursement to indicate a general problem. (See exhibit B, attached, for examples.) In almost all of the cases, the property which was not utilized was subsequently donated for education or public health purposes. In addition we found cases where agencies who had no funds available accepted excess property in poor condition because it was free while the same kind of property in good condition, but for which reimbursement was required, was donated. In each case the property was owned by a DOD working capital fund and, therefore, not available under any of the GSA exceptions to the reimbursement policy.

The total effect of the requirement for reimbursement on utilization is not reflected by the cases mentioned in the preceding paragraph or by the examples shown in attachment B. Those cases are the ones where an agency needed the property and asked that GSA intervene with DOD to see if the requirement for reimbursement could be waived. As a general practice, agencies who needed excess property but had no funds to pay fair value made no attempt to secure it if the catalog indicated that it was reimbursable.

We cannot estimate the extent to which utilization would be increased under free transfer policy. Estimates from agency people with whom we discussed the problem ranged from 20 to 100 percent.

(b) *On paperwork.*—A strange result of the various exceptions provided in GSA regulations which authorize free transfers is the increase in paperwork. We found many cases where an agency office would send several separate orders, all under \$500, each specifying delivery to a different subordinate office in order to obtain excess property free. In a few instances this meant that as many as 25 separate orders were written, processed through the GSA regional office and the agency that had the excess property. One order specifying 25 delivery points would have done the job had it not been for the desire to obtain the property free under one of the exceptions.

Another instance of increase in paperwork is the correspondence which results when an agency asks GSA to intervene for them to see if special circumstances warrant a waiver of the reimbursement requirement in specific instances. Since such cases may take months to resolve and several exchanges of correspondence, GSA may also have to ask the holding agency to extend the holding period and this involves additional paperwork.

(c) *On condition codes.*—The transfer of excess property at fair value has required the establishment of a complicated system of condition coding since the fair value of property must be based on its condition. The code developed by GSA is set forth in GSA Regulation I-III-303.03b. (See exhibit A.) There are 16 different codes and each of them are applied as a result of subjective judgment. Uniformity of application has been impossible because judgment varies and the shades of difference between codes are very slight. Differences of opinion frequently occur between the buyer and seller of excess property because the condition code determines the price. The condition frequently looks better to the seller than to the buyer.

In addition to the natural differences which will occur because judgments differ, is the effect of reimbursement on condition coding. GSA's regulation says "where doubt arises as to which fair value code applies to an item, preference should be given to that fair value code which will facilitate and encourage maximum utilization." Which means that it is all right to downgrade an item so it can be transferred free. Since condition coding is personal judgment the codes at a particular installation may reflect the owner's desire for high reimbursement, while at another the codes may reflect the owner's desire to get rid of the property as fast as possible. Add to these differences the fact that military standards of performance are different from those of civil agencies and the complexity and variability of the system is apparent.

When a customer examines an excess list he does not put great reliance on the condition code unless he's had previous experience with the coder.

The fair value code has led to a complicated system of condition coding which is subject to many inconsistencies and very difficult to administer.

2. The pauper's oath

None of the exceptions under which excess property can be obtained free is subject to such wide variation in interpretation as the so-called pauper's oath. Some agencies interpret it strictly and will not certify that no funds are available as long as there is money available in their property appropriation. Others prohibit the use of the pauper's oath in the field without prior headquarter's approval. Most agencies, however, interpret the pauper's oath loosely. One agency said it used the pauper's oath to obtain excess property free unless the item was specifically mentioned in their appropriation request. Many used rubber stamp certifications.

GSA accepts all pauper's oath certifications without question and does not look behind the certification for evidence of validity.

3. Hoarding of supplies

The study group examined thousands of individual transfer documents to see whether property was being acquired in excessive quantities. It found no evidence of hoarding. As a matter of interest, most transfers of excess property are for small amounts and are widely dispersed among the thousands of small field organizations. In the whole Government for the 12-month period ending March 31, 1959, there were only 179 transfers of excess property which amounted to \$50,000 or more at acquisition cost.

Inventory controls and supply discipline in most agencies are such as to prevent large unneeded quantities of excess property being transferred. The experience of the immediate postwar years will not be repeated.

CONCLUSIONS

(a) Present policies and procedures relating to reimbursement for excess personal property do not facilitate and promote maximum utilization.

(b) The fair value code has led to a complicated system of describing the condition of excess property (condition coding) which is very difficult to administer and subject to many inconsistencies.

(c) The "pauper's oath" under which Federal agencies can obtain excess personal property (other than DOI working capital fund property) without payment of fair value is not interpreted uniformly or carefully monitored.

(d) The donable property program has created a general feeling among Government property management people that the present system is unfair because it requires Federal agencies to pay for excess property while that same property is available to non-Federal agencies at no cost.

Recommendations

Utilization of excess personal property within the Federal Government is falling considerably short of its potential. With substantially greater quantities of excess personal property predicted to become available in the next several years, it is necessary to eliminate the obstacles to maximum utilization and at the same time retain sufficient control by the Bureau to avoid undue augmentation of appropriations. This can be done by abandoning the concept that fair value be paid for excess personal property and by integrating excess personal property utilization programs into the budget process.

To provide a more favorable climate for the utilization of excess personal property and to improve the Bureau's position with respect to the effect of excess property utilization on agency programs and budgets, I propose the following plan of action:

(a) Eliminate reimbursement for excess personal property, including working capital fund excess property, except for those agencies presently named in GSA Regulation 1-III-303.03a.2, and other public enterprise funds.

(b) Send a letter from the Director to the Secretary of Defense which requests the Department of Defense to make working capital fund excess property available for transfer without reimbursement.

(c) Revise budget procedures to require agencies to include excess personal property utilization plans in backup materials for their annual budget requests. This would include (1) the amount of excess personal property acquired in the past year and estimates of the amounts to be acquired in the current year and the budget year, and (2) the estimated amount by which agency personal property requirements for the budget year can be reduced by the acquisition of excess property in lieu of new procurement.

(d) Include agency excess and surplus personal property utilization and disposal programs and plans as a regular item in the annual budget reviews conducted by the Bureau of the Budget.

(e) Issue a memorandum to all agency heads outlining the new approach and requesting their support for the program.

Exhibit A

GSA Reg. 1-III-303.01
(12-27-55)

SECTION 303.00 TRANSFERS OF EXCESS PROPERTY

303.01 Agencies Eligible.—Transfers of excess personal property may be made among Federal agencies, and to the Senate, the House of Representatives, the Architect of the Capitol and any activities under his direction, mixed-ownership Government corporations (as defined in the Government Corporation Control Act), the municipal government of the District of Columbia, or a non-Federal agency when the functions of a Federal agency authorized to procure for it is transferred to the Administration.

303.02 Information of Availability.—Information regarding the availability of excess property may be obtained through the following:

a. Direct exchange of information between agencies pursuant to subsections 301.05 and 303.06 of this Part;

b. The examination of reports of excess property available in Administration regional offices;

c. Personal contact with the Administration; and

d. Review of lists of selected items circularized by the Administration.

303.03 Fair Value—Reimbursement.—

a. Excess personal property shall be transferred with reimbursement at fair value or without reimbursement (the costs specified in subsection 305.01b of this Part will be chargeable to the transferee agency) as provided below:

1. Reimbursement shall not be required, under the circumstances specified in subparagraph 4 of this subsection, in any case where the property transferred was acquired by the use of funds either not appropriated from the general fund of the Treasury or appropriated therefrom but by law reimbursable from assessment, tax, or other revenue or receipts, unless, in either case, payment of fair value is requested. This applies, without limitation, to property in working capital funds.

2. Reimbursement shall be required when either the transferor or the transferee agency, (or the organizational unit affected) is subject to the Government Corporation Control Act (59 Stat. 597; 31 U.S.C. 841), is a mixed-ownership Government corporation, is the municipal government of the District of Columbia, or is a non-Federal agency when the function of a Federal agency, authorized to procure for it is transferred to the Administration.

3. Reimbursement shall be required in all other cases except as specified in subparagraph 4 below or unless otherwise directed by the Administration.

4. Reimbursement for fair value shall not be required for the transfer of excess personal property under the following circumstances:

(a) Transfers to the Administration for redistribution, to the extent not precluded by subsection 303.04 below.

(b) Transfers to other agencies of the Government, when approved by the Administration, for the purpose of replacing and upgrading of equipment, provided:

(1) The property being replaced is older, of poorer quality or or less efficient for use;

(2) The property being replaced meets current replacement standards, if such have been established by the Administration for such items;

(3) The property being replaced will, promptly after replacement, be determined to be excess and processed in accordance with section 302.00 of this Part or transferred to other agencies in accordance with subsection 303.06 below; and

(4) The acquiring agency certifies on its purchase order substantially as follows:

This property is being acquired pursuant to GSA Reg. 1-III-303.03a.4(b) and does not include items for which replacement has been specifically denied by the Congress.

(c) Transfers to the Administration for the furnishing and equipment of buildings, offices, or other installations where the Administration is authorized to provide such furnishings and equipment.

(d) Transfers, at one time, from one location, of property having a fair value, determined, pursuant to paragraph b below, to be not in excess of \$100.

(e) Subject to approval of the Administration, transfers of property which involve unusual and substantial costs to the transferee agency for dismantling, removing, handling, or transporting such property.

(f) Transfers of property where the Administration approves such transfers and determines in each case that it is clearly in the best interest of the Government, and the requisitioning agency certifies on its purchase order substantially as follows:

(1) That the agency has a need for the property to carry on an approved program, and acquisition of the property will not result in an inventory level in excess of that permitted under GSA Reg. 1-II-403.02.

(2) That procurement of the property cannot be financed from available funds; and

(3) That acquisition of the property is not contrary to any specific limitation or other specific action of the Congress.

(g) Transfers which may be made without reimbursement or transfer of funds in accordance with specific law enacted subsequent to June 21, 1944.

(h) Transfers to an executive agency of excess property which the holding agency previously acquired from the transferee agency without reimbursement, provided the transferee agency certifies on its requisition or purchase order as follows:

The property covered by this document was acquired from this agency by the holding agency without reimbursement, and is being reacquired pursuant to GSA Reg. 1-III-303.03a4(h).

b. Unless directed otherwise by this Administration, fair value of excess personal property under this Part shall be determined by the holding agency by using the following formula which the Administrator has determined will promote utilization and which takes into consideration the other costs which transferee agencies will incur:

Fair Value Code	Explanation	Percentage of original or estimated acquisition cost
A	Unused personal property, ready for use in a condition identical with new items delivered by a supplier. In general, this would include only property that would qualify for a condition code of N-1 New—Excellent.	70
B	Personal property which has been used and requires no reconditioning or repair; and personal property which, although unused and requiring no reconditioning or repair, does not qualify for Fair Value Code A. In general, this would include property that would qualify for the following condition codes: N-2 New—Good. E-1 Used—Reconditioned—Excellent. O-1 Used—Usable Without Repairs—Excellent.	35
C	Personal property requiring minor repairs, to put into usable condition, whether used or unused; and property somewhat below the condition outlined in Fair Value Code B above. In general, this would include property that would qualify for the following condition codes: N-3 New—Fair. E-2 Used—Reconditioned—Good. O-2 Used—Usable Without Repairs—Good. R-1 Used—Repairs Required—Excellent.	20
D	Personal property requiring major repairs, conversion, or rehabilitation, and all other items which through deterioration, obsolescence or other factors do not fit in Fair Value Codes A, B, or C. In general, this would include property that qualifies for the following condition codes: N-4 New—Poor. E-3 Used—Reconditioned—Fair. E-4 Used—Reconditioned—Poor. O-3 Used—Usable Without Repairs—Fair. O-4 Used—Usable Without Repairs—Poor. R-2 Used—Repairs Required—Good. R-3 Used—Repairs Required—Fair. R-4 Used—Repairs Required—Poor. X Salvage. Scrap.	(1)

¹ No charge.

c. In determining fair value pursuant to the formula in paragraph b. of this subsection, where doubt arises as to which fair value code applies to an item, preference should be given to that fair value code which will facilitate and encourage maximum utilization by other Federal agencies. Where application of the above formula will not achieve the intended purpose because of special circumstances or the peculiar nature of the property, the holding agency may use other criteria for arriving at fair value if approved or directed by this Administration. Where circumstances warrant, and the agencies concerned agree thereto, fair value prices higher than those arrived at by use of the formula specified in paragraph b. of this subsection may be used.

d. Disagreement between agencies as to the fair value shall be referred for final determination to the General Services Administration Regional Director for the region in which the property is located, or his designated representative.

Exhibit B

EXAMPLES OF CASES WHERE EXCESS PROPERTY WAS NOT UTILIZED BECAUSE OF THE REQUIREMENT FOR REIMBURSEMENT

1. Eisenhower jackets, Atlanta General Depot

Three hundred new wool Eisenhower-type field jackets were available for transfer at the Atlanta General Depot as nonreported excess property. The U.S. Federal Correctional Institution, Tallahassee, Fla., needed all of the jackets but because funds were not available obtained only 37 which could be transferred without reimbursement. The correctional institution eventually filled their requirements from a supply of used jackets in need of repair available at the Memphis General Depot. In the meantime the remaining 263 new jackets at Atlanta General Depot were donated to the State of Georgia. In this case Federal Government needs were filled by using a product in poor condition while the same product in new condition was donated.

2. Iron pipe, Marine Corps Supply Center, Albany, Ga.

The Marine Corps Supply Center, Albany, Ga., reported 49,514 feet of 8-inch iron pipe in new condition as excess to their needs. The acquisition cost of the pipe was \$54,465. Ft. Jackson, S.C., requested 10,000 feet if transfer could be made without reimbursement. The transfer could not be made without reimbursement and 10,702 feet at an acquisition cost of \$21,771 was subsequently donated.

3. Scrapers, Atlanta General Depot

Five each, 2½-cubic-yard scrapers and seven each, 6-cubic-yard scrapers in used but repaired condition were reported excess by the Atlanta General Depot. The total acquisition cost was \$44,130. The Soil Conservation Service, Alexandria, La., and the USDA Experiment Station, Experiment, Ga., were interested in obtaining all of the scrapers if they could be transferred without reimbursement. Reimbursement was required hence utilization was not accomplished. All of the equipment was subsequently donated.

4. Cotton duck, New York

One million eighty-two thousand seven hundred and forty-one yards of cloth, cotton duck, O.D. 42 inches wide in new condition were reported to the New York GSA regional office; 4,000 yards were transferred to Federal agencies on 13 separate orders, all of which were for less than \$500 (which could be obtained without reimbursement). The Post Office Department requested the total quantity for use in patching mail bags provided it could be transferred without reimbursement. This quantity would represent a 2 years' supply to the Department. DOD would not waive the requirement for reimbursement and the Post Office declined to pay fair value in view of the total cost of fair value, transportation, additional treatment, cutting to size, and other costs involved as compared to the cost of new patches from commercial sources. As a result all except the 4,000 yards transferred to Federal agencies on 13 separate orders were donated and presumably the Post Office will buy its requirements for mail bag patching material from commercial sources.

5. Aluminum landing mats, New York

Twelve sets of aluminum landing mats were reported as excess property to the GSA regional office in New York. The total quantity was requested by the Defense Materials Services, GSA, provided the requirement for reimbursement could be waived. DOD would not waive reimbursement and the 12 landing mat sets were donated.

6. Bulldozers, New York

Nine D-7 bulldozers used but repaired and in good condition were reported to the GSA regional office, New York. Four were requested by the Fish and Wildlife Service, Oceanville, N.J., two by Soil Conservation Service, Richmond, Va., and two by Soil Conservation Service, Columbia, S.C. All requests were based on waiver of reimbursement requirement. DOD would not waive reimbursement and the entire quantity was released as surplus.

7. Photographic identification equipment, New York

One hundred and twenty-eight sets of photographic identification equipment in new condition were reported to the GSA regional office, New York. The FBI in New York requested three and the Geological Survey, Denver, requested three provided reimbursement could be waived. Reimbursement was required and except for one set which was transferred to AEC at a fair value cost of \$188 the remaining 127 were donated.

8. Masking paper, New York

Three hundred twenty-four reams of masking paper in new condition were reported to the GSA regional office, New York. The total value at acquisition cost was \$7,290. National Park Service, Cape Hatteras, requested 50 reams, a Navy publication requested 100 reams, both subject to transfer without reimbursement. Both of these requests were reduced to 32 reams, the amount which could be supplied without reimbursement under the \$500 limitation. The remaining 302 reams were donated.

9. Kraft paper, New York

Six thousand and fifty-seven rolls of 24-inch kraft wrapping paper in new condition were reported to the GSA regional office, New York. Total acquisition cost was \$25,503. Forty-eight rolls were transferred to the Federal Penitentiary at Alderson, W. Va., without reimbursement under the \$500 line item limitation. The National Buying Division, GSA, requested the total quantity if reimbursement could be waived. Case is still pending but if reimbursement is not waived or NHD GSA will not pay fair value, a request is already on file for donation of the entire lot.

10. Accounting machine, Fort Ord, Calif.

Fort Ord, Calif., reported as excess an accounting machine to the GSA regional office, San Francisco. The accounting machine cost \$5,120 and was listed as being used but in excellent condition. Fair value required was \$1,794. The Bureau of Indian Affairs at Portland needed such a machine to replace an old worn-out 1038 model in use in their office. They had no funds available for the replacement of the machine hence they requested it for upgrading existing equipment without reimbursement. DOD would not waive reimbursement requirement. There is in the case file awaiting approval for donation a DITW request for this machine.

11. Commercial refrigerators, Navy Supply Center, San Francisco

Fifty-five reach-in type commercial refrigerators located at the Navy Supply Center in Oakland, Calif., were reported to GSA regional office, San Francisco, as excess. GSA was able to transfer 14 refrigerators at fair value (\$343.50 each). The Federal Prison at Alcatraz asked for the remaining 35 to be transferred without reimbursement since they did not have sufficient funds available to pay fair value. GSA requested DOD to waive reimbursement requirements but were unsuccessful. They were successful, however, in negotiating the price down from 20 percent to 10 percent of acquisition cost. Alcatraz was able to find sufficient funds to buy 12 refrigerators at this price. The remaining 23 refrigerators without reimbursement Alcatraz needed all of them.

12. Shelters, Sacramento, Calif.

The Signal Depot, Sacramento, Calif., reported 20 wood frame plywood shelters as excess to their needs. The Marine Physics Laboratory, University of California, a contractor of the Office of Naval Research submitted a request for nine of these shelters to be used for housing power supplies and equipment that were to be located in a remote area in a special testing program for Office of Naval Research. These shelters could not be transferred without reimbursement hence 20 of them were donated.

13. Wire fabric, Burstow, Calif.

The Marine Corps, Burstow, Calif., report 16,051 rolls of wire fabric as excess to their needs. The acquisition cost of this material was \$542,883. The trust territories for Guam needed 1,000 rolls and was willing to pay 10 percent of the acquisition cost or \$3.30 per roll. DOD would not accept less than 25 percent of acquisition cost or \$8.25 per roll. Consequently, the trust territories reduced their order from 1,000 to 100 rolls, all they could afford from their current allotment at the \$8.25 price. The remaining 16,351 rolls representing more than \$500,000 acquisition cost to the Government were donated to State surplus property agencies.

EXHIBIT C

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., January 21, 1959.

HON. FRANKLIN FLOETE,
Administrator, General Services Administration,
Washington, D.C.

MY DEAR MR. FLOETE: Last June when we discussed the program planned by the Department of Defense and the General Services Administration to improve utilization and disposal of the enormous quantities of excess and surplus personal property which will be generated in the next few years, I mentioned that the

Bureau of the Budget would look into certain selected problem areas, particularly those which have budgetary or governmentwide organizational impact. Our objective is to identify and remove any obstacles or modify any policies which stand in the way of maximum utilization. Since existing policies and procedures relating to reimbursement for the transfer of excess personal property have been under heavy criticism, our first staff effort has been directed toward this problem area. (Summary of findings and recommendations enclosed.)

The study confirms that opportunities for better utilization of excess personal property are being missed because payment of fair value is required, and that the losses which result outweigh any control value which reimbursement requirements may have. It is necessary that we provide a more favorable climate for the utilization of excess property and at the same time retain sufficient fiscal controls to avoid undue augmentation of appropriations. The staff concludes that this can be done by eliminating the requirement for reimbursement of excess personal property, including working capital fund excess property, and by integrating excess personal property utilization programs into the budget process.

Since your Administration has long advocated a change in policy in this respect, you will be pleased to know that I have given general approval to the staff recommendations. However, I am reserving judgment as to the simplest and most effective way to relate personal property utilization programs into the budget process and the budget cycle. Prudent management requires that experience under the new policy be continuously scrutinized by your Administration and the Bureau to assure that transfers of excess personal property without reimbursement are carefully related to the actual supply needs and inventory situation in the receiving agency. Consistent with this action, I am asking the Secretary of Defense to modify existing policies of that department in order to provide for transfers without reimbursement of working capital fund excess personal property of the military departments.

I have asked our management and organization staff to work with Mr. Bean in working out the arrangements which affect your agency and in drafting the necessary changes in the regulations.

Sincerely yours,

_____, Director.

EXHIBIT D

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 3, 1960.

The Honorable the SECRETARY OF DEFENSE.

MY DEAR MR. SECRETARY: Last June when we met with Secretary McGuire and Mr. Bean to discuss the program planned by the Department of Defense and the General Services Administration to improve utilization and disposal of the enormous quantities of excess and surplus personal property which will be generated in the next few years, I mentioned that the Bureau of the Budget would look into certain selected problem areas, particularly those which have budgetary or governmentwide organizational impact. Our objective is to identify and remove any obstacles or modify any policies which stand in the way of maximum utilization. Since existing policies and procedures relating to reimbursement for the transfer of excess personal property have been under heavy criticism, our first staff effort has been directed toward this problem area. (Summary of findings and recommendations enclosed.)

The study confirms that opportunities for better utilization of excess personal property are being missed because payment of fair value is required, and that the losses which result outweigh any control value which reimbursement requirements may have. It is necessary that we provide a more favorable climate for the utilization of excess property. The staff concludes that this can be done by eliminating the requirement for reimbursement of excess personal property transferred between Government agencies and departments, including working capital fund excess property. The staff also recommends that adequate fiscal controls can be maintained by integrating excess personal property utilization programs into the budget process.

Although I am reserving judgment as to the simplest and most effective way to relate excess personal property utilization programs to the budget process and the budget cycle, I have approved as a general policy for the Government the elimination of the requirement for reimbursement for interdepartmental

transfers of excess personal property. As an exception to this general policy, reimbursement shall be required when either the transferor or the transferee agency (or the organizational unit affected) is subject to the Government Corporation Control Act (59 Stat. 597; 31 U.S.C. 841), is a mixed-ownership Government corporation, is a municipal government of the District of Columbia, is a non-Federal agency when the functions of a Federal agency authorized to procure for it is transferred to the General Services Administration, or is an agency financed by public enterprise funds (public enterprise funds are defined in sec. 21, Bureau of the Budget Circular A-34). Appropriation-owned assets of the Department of Defense and those held by working capital funds (which are intragovernmental revolving funds) would be available for transfer under this recommendation.

I have informed Mr. Floete, General Services Administrator, of my approval of this change in policy and I have asked our management and organization staff to work with the General Services Administration in drafting the necessary changes in pertinent General Services Administration regulations.

However, since the Secretary of Defense may, at his discretion, continue to require reimbursement for the transfer of Department of Defense owned excess property and since the Department of Defense generates more than 90 percent of the Government's total excess personal property, these changes in the general policy of the Government can accomplish little toward improved utilization and the avoidance of waste unless the Department of Defense makes similar changes in its policy. Our study clearly establishes that there have been many instances where the insistence upon reimbursement for working capital fund excess property has resulted in property being donated or sold for nominal returns even though there are valid requirements for such property in other Federal agencies. Such results are clearly not in the best interest of the Government.

Consistent with our objectives to improve utilization, we urge that the policies of the Department of Defense, including those applicable to working capital fund excess property, be modified immediately to permit the transfer of excess personal property without reimbursement.

Sincerely yours,

ELMER B. STAATS,
Deputy Director.

EXHIBIT E

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 15, 1960.

MY DEAR _____: In my letter of September 22, 1959, I set forth specific excess and surplus personal property problem areas which had been selected by the Bureau for a study directed toward an action program to identify and remove any obstacles which stand in the way of maximum results. Good progress has been made on problem areas listed as a, b, and c in my previous letter and we are now ready to turn our attention toward a determination as to whether effective controls have been established to assure that excess personal property is considered the first source of supply in agency procurement programs. This study will consist of an analysis of agency procurement experience for selected personal property items which have been available as excess and which are known to have common and widespread use throughout the Federal Government.

To simplify the collection of data needed for the analysis, we have developed a form on which agency activities may report acquisition of specific items. It appears that an adequate cross section of experience can be secured by limiting the collection of data to the Government procurement activities located in the States served by General Services Administration regions two, five, and nine (New

York, Chicago, and San Francisco, respectively). Data will also be collected from the headquarters procurement activities of agencies which have centralized procurement functions in the headquarters office.

The project staff will conduct the test in the field, using the three GSA regional offices named above as bases of operation. The forms, list of items to be tested, and accompanying instructions will be distributed directly by the project staff to the participating field activities. Ten working days will be allowed for the completion and return of the forms to the designated GSA regional office. The project staff will examine the data, contact reporting activities for clarification if necessary, and tabulate the results. A summary of findings will be transmitted to you when the test has been completed.

The Federal Supply Service, GSA, is cooperating with the Bureau in the selection of items to be tested, is serving as local liaison for information concerning the test, and will accumulate locally the data transmitted by agency field activities participating in the test. The analysis and evaluation of data submitted will be performed by the project staff. Enclosed are a copy of the test questionnaire, a list of the items to be tested in GSA region five, a sample of the local letter to be used to transmit the questionnaire to field activities, and a time schedule.

Sincerely yours,

ELMER B. STAATS, *Acting Director.*

Copies of the above letter have been sent to: GSA, DOD, AEC, Commerce, DHEW, Post Office, OCDM, FAA, Interior, State, ICA, Justice, NASA, TVA, VA.

This is a draft of a proposed form letter to be addressed to each regional agency selected to participate in the test.

DEAR MR. _____: The Bureau of the Budget is conducting a study directed toward the identification and removal of any obstacles which stand in the way of maximum utilization of excess personal property. As a part of the study, we are conducting a simple test to ascertain the extent to which excess personal property is used by Government agencies as a source of supply in lieu of new procurement. The procurement activities in this region have been selected for participation in the test as representing a cross section of experience valuable to the objectives of the study.

The Federal Supply Service, General Services Administration, is cooperating with the Bureau in the selection of items to be included in the test and in serving as local liaison for information concerning the test. The analysis and evaluation of data submitted will be done in the field by the staff assigned to the project.

Enclosed are forms which are to be completed for each item included in the test. Return completed questionnaires (original only) to the Bureau of the Budget, care of General Services Administration, Federal Supply Service, 575 U.S. Courthouse, Chicago, Ill., by (date to be inserted).

If questions arise concerning this test, please contact Mr. _____ at the above address, telephone number _____.

Your cooperation is sincerely appreciated.

Sincerely yours,

BUREAU OF THE BUDGET.

Time schedule for test

- | | |
|--|-------------------|
| 1. Distribution of test materials to field activities. | By Feb. 26, 1960. |
| 2. Return of test data _____ | By Mar. 11, 1960. |
| 3. Analysis of data by project staff _____ | By Apr. 15, 1960. |
| 4. Summary of findings _____ | By Apr. 30, 1960. |

DEFECTIVE ORIGINAL COPY

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D. C.

Date _____

**ANALYSIS OF EXCESS PROPERTY
UTILIZATION FOR SELECTED
PERSONAL PROPERTY ITEMS**

1. Agency: _____

2. ITEM No. _____

3. Description: _____

4. If this item, or an item for which it is an acceptable substitute[®], is carried in stock, supply the following data:

a. Maximum stock level currently authorized (quantity) _____

b. Actual quantity on hand June 30, 1959 _____

c. Quantity issued during fiscal year 1959 _____

d. Quantity anticipated to be issued in F.Y. 1960 _____

e. Date or dates on which stock has been received since June 30, 1959. Show date and quantity

(1) From purchases (including purchases from GSA stores)

(2) Transfers from other government agencies including excess property transfers

5. If the item described above, or an item for which it is an acceptable substitute[®], is not carried in stock but is purchased for use when needed:

a. Quantity acquired since June 30, 1959. Show date and quantity.

(1) From purchases (including purchases from GSA stores)

(2) Transfers from other government agencies including excess property transfers

6. Comments explaining any unusual situations indicated by data given above:

7. Prepared by: _____

Phone No. _____

*SEE COMMENTS ON OTHER SIDE

1. The utilization potential of an excess property item includes uses for which it is an acceptable substitute as well as uses for which it is specifically designed. For example, a heavy duty item available as excess can frequently be substituted for a light duty item of the same kind. A higher quality item available as excess might be suitable as a substitute for an item of the same kind but of lower quality. Similarly, items packed in small containers might be substituted for the same item packed in larger containers, etc.
2. The above comments are intended to be illustrative only. For the purposes of this questionnaire the agency will determine whether it purchases an item for which an item included in this test is an acceptable substitute.

INSTRUCTIONS FOR COMPLETING QUESTIONNAIRE

1. Insert name and post office address of agency completing the questionnaire.
2. Insert item number from the list of items included in this test.
3. Insert description of item. If data is reported on a substitute item insert the description of the substitute.
4. Self explanatory.
5. Self explanatory.
6. Self explanatory.
7. Insert name and telephone number of person who should be contacted by the Bureau staff if questions arise during the analysis of the completed questionnaires.

JANUARY, 6, 1960.

Mr. E. P. DONALDSON,
Chief, Special Programs Branch, Utilization Division, Federal Supply Service,
General Services Administration, Washington, D.O.

DEAR MR. DONALDSON: This headquarters is in receipt of your letter, file FLS, December 7, 1959, forwarding a General Services Administration approved, Department of State Purchase Order No. NC-27-10072-60 for the nonreimbursable transfer of 406 excess blankets located at the Marine Corps Recruit Depot, Paris Island, S.O.

As desirable as a transfer of this nature may be, existing authority contained in the "Regulations Governing Stock Fund Operations," does not permit the Marine Corps to transfer these blankets without reimbursement.

In view of the above, the enclosed purchase order is returned herewith.

Sincerely yours,

P. W. JOHN,

Brigadier General, U.S. Marine Corps, Director, Materiel Division, Supply Department.

By direction of the Commandant of the Marine Corps.

DECEMBER 7, 1959.

In reply refer to: FLS

COMMANDANT,
U.S. Marine Corps,
Washington, D.O.
(Attention: Code ZD).

DEAR SIR: Enclosed is Purchase Order NC-27-10072-60, dated November 27, 1959, from Department of State, Washington 25, D.C., for 406 blankets, bed, woolen, brown, green, olive drab, reported in 02 condition. These blankets were listed on Report of Excess Property No. MC-35-59-1003, DOD No. 002286, GSA Control No. 4-60-2251, and are located at Marine Corps Recruitment Depot, Paris Island, S.O.

The Department of State has a need for these blankets to carry out an approved overseas program. Funds are not available to pay the established fair value of \$620.24, and it is requested that reimbursement be waived in accordance with GSA Regulations 1-III-303.03a.4(f). GSA concurs in this request and approves the order accordingly.

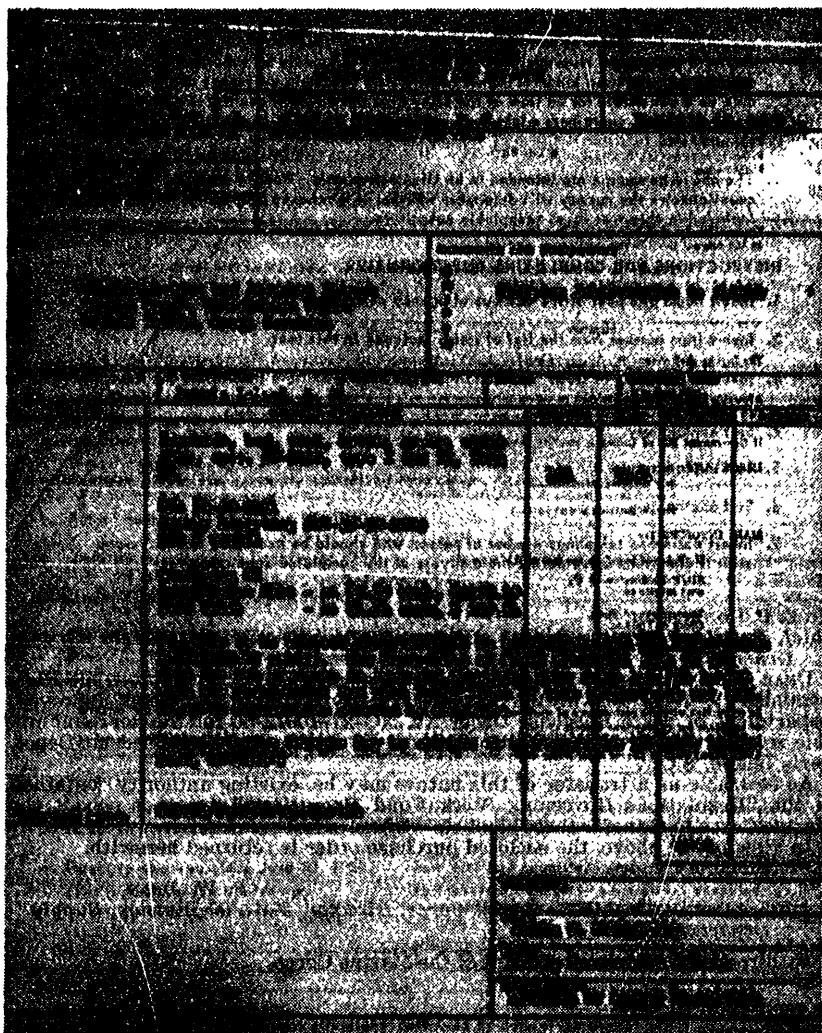
Please let us have your decision at an early date.

Sincerely yours,

F. P. DONALDSON,

Chief, Special Programs Branch, Utilization Division.

DEFECTIVE ORIGINAL COPY



DEPARTMENT OF DEFENSE,
ARMED FORCES SUPPLY SUPPORT CENTER,
Washington, D.C., December 31, 1958.

DIRECTOR,
Utilization and Sales Division, Federal Supply Service, General Services Administration, Washington, D.C.

DEAR SIR: This is in reply to your letters FUU of November 14 and November 19, 1958, regarding the transfer of binoculars and cotton duck to other Federal agencies without reimbursement.

Department of Defense policy as reflected in implementing service regulations governing the operation of the stock funds prohibits the transfer without reimbursement of any excess stock fund property to another Federal agency except line items under \$500 acquisition cost.

Accordingly, it is regretted that authorization to transfer the binoculars and cotton duck without reimbursement cannot be obtained.

Sincerely yours,

P.M. SOMERVILLE,
Assistant Chief, Utilization Division.

NOVEMBER 14, 1958.

In reply refer to FUU.

Capt. FRED F. FALLIS,
*U.S. Navy, Chief, Utilization Division, Armed Forces Supply Support Center,
Washington, D.C.*

DEAR CAPTAIN FALLIS: This is with reference to the reports of excess personal property for cotton duck and webbing located at the Richmond Quartermaster Depot, Richmond, Va., and Memphis General Depot, Memphis, Tenn. (AFSSC Control 836318, GSA Control 4-59-2901, AFSSC Control 836319, GSA Control 3-59-1474, AFSSC Control 835413, GSA Control 3-58-8121).

Federal agencies have expressed interest in substantial quantities of the excess cotton duck provided it can be obtained without reimbursement as they do not have funds available to pay fair value. It is requested that authority be obtained to make transfers of this material without reimbursement in accordance with GSA Regulation I-III-303.00. This will permit agencies to satisfy their current and planned requirements and at the same time assure maximum utilization of this property.

Please let us have your decision at an early date. It is also requested that the automatic release date on AFSSC Control 838318, GSA control 4-59-2901, and AFSSC Control 836319, GSA Control 3-59-1474, be extended to February 1, 1959.

Sincerely yours,

L. C. TUTTLE,
Director, Utilization and Sales Division.

U.S. ARMY GENERAL SUPPLIES COMMODITY CENTER,
RICHMOND QUARTERMASTER DEPOT,
Richmond, Va., October 30, 1959.

GENERAL SERVICES ADMINISTRATION,
Federal Supply Service, Washington, D.C.
(Attention: Code FL).

GENTLEMEN: Your letter of October 1, 1959, regarding an electric mixing machine reported excess by Department of Defense, was forwarded to this center for reply.

Published Army regulations prohibit the issue of excess stock fund property on a nonreimbursement basis when the line item value exceeds \$500.

In view of the foregoing, the requirement for reimbursement to the stock fund cannot be waived.

Sincerely yours,

LAXTON HOLDEN,
(for J. P. Pinzolo, Major, QMC, Chief, Equipment Division).

OCTOBER 1, 1959.

In reply refer to FL.

OFFICE OF THE QUARTERMASTER GENERAL,
Department of the Army, Washington, D.C.
(Attention: Code QMGGS).

GENTLEMEN: This is with reference to an electric mixing machine, FSN 7320-222-4167, reported excess to the Department of Defense by Report of Excess Personal Property No. A-1461-59-956(37).

Purchase Order No. 15-449-0 has been received from the Federal Reformatory, El Reno, Okla., requesting the transfer of this mixer to replace and upgrade worn equipment. The reformatory has certified that reimbursement at fair value cannot be financed from available funds.

GSA will approve the transfer pursuant to applicable GSA regulations provided your office will waive the requirement for reimbursement to the stock

fund in this instance. Favorable consideration of this proposed transfer is asked so that Federal utilization of the excess property may continue. Please advise.
Sincerely yours,

L. C. TUTTLE, *Director, Utilization Division.*

MARCH 30, 1959.

Mr. L. TUTTLE,
Director, Utilization and Sales Division, Federal Supply Service, General Services Administration, Washington, D.C.

DEAR MR. TUTTLE: Reference your letter of February 20, 1959, relative to the transfer without reimbursement to the Department of Commerce, Weather Bureau, of 575 AN radiosonde transmitters (T-93B/AMT-4) which are excess at the Sacramento Signal Depot.

The problem was referred to the proper Department of the Army authority for an exception since Department of Defense Directive 7420.1 prohibits the transfer of excess stock fund materiel without reimbursement when the acquisition line item value exceeds \$500.00. This office was advised that the transfer requires reimbursement on the basis of the fair value code of the item.

Sincerely,

JAMES D. DEMARR,
*Colonel, Signal Corps,
Chief, Distribution Branch.*

FEBRUARY 20, 1959.

In reply refer to FUU.

HEADQUARTERS DEPARTMENT OF THE ARMY,
*Office of the Chief Signal Officer,
Washington, D.C.*

GENTLEMEN: This is with reference to Report of Excess Personal Property No. A-439-59-6-2409 (GSA Control 9-59-88253(66), AFSSC Control 667293) for 575 AN radiosonde transmitters (T-93B/AMT-4), located at Sacramento Signal Depot, Sacramento, Calif.

The Department of Commerce, Weather Bureau, has a need for all these transmitters to carry on an approved program, but do not have funds to pay the established fair value of \$9.45 each. They have requested that the fair value be waived and property be transferred without reimbursement in accordance with GSA Regulation I-III-303.03a4(f).

Although the transmitters are stock fund property, we concur in the request to transfer the property without reimbursement as it will permit further utilization by the Government.

Please let us have your decision at an early date.

Sincerely yours,

L. C. TUTTLE,
Director, Utilization and Sales Division.

NOVEMBER 5, 1959.

In reply refer to FL.

OFFICE OF THE QUARTERMASTER GENERAL,
Department of the Army, Washington, D.C.
(Attention: Code QMGPII).

GENTLEMEN: Enclosed is purchase order No. MC-27-10073-60, dated October 27, from Department of State, Washington, D.C. It is for two dispensing pumps, gasoline, with 220-volt, 3-phase motor, located at Fort Knox, Ky. (Report of Excess Personal Property, No. A-122-15-014, AFSSC Control No. 499525, GSA Control No. 5-60-950.)

OFFICE OF THE QUARTERMASTER GENERAL,
Washington, D.C.

QMGGs-SD 400.

To: Administrator, General Services Administration, Federal Supply Service,
Washington, D.C.

Subject: Dispensing pump, gasoline.
(Attention of Utilization Division.)

1. Reference your letter dated November 5, 1959, file FL, requesting approval to transfer two dispensing pumps, gasoline, with 220-volt, 3-phase motor, located at Fort Knox, Ky. (Report of Excess Personal Property No. A-122-15-014, AFSSC Control No. 490525, GSA Control No. 5-60-956) to the Department of State.

2. Current Department of Army regulation precludes transfer of stock fund property without reimbursement except where the transfer does not exceed \$500 per requisition line item.

GORDON W. COOK,
Colonel, QMC,
Chief, General Supplies Division
(For the Quartermaster General).

SEPTEMBER 23, 1959.

In reply refer to FL.
COMMANDING OFFICER,
Richmond Quartermaster Depot,
Richmond, Va.
(Attention of Stock Control Division.)

DEAR SIR: Enclosed are four Department of the Interior, National Park Service, purchase orders and one Department of Commerce, Weather Bureau, purchase order (see enclosed list) for excess nylon rope located at Auburn General Depot, Auburn, Wash. ("Report of Excess Personal Property No. A-1102-59-956, GSA Control 10-59-5199").

The orders are for 1,240 lengths (120 feet per length) of excess nylon rope (total acquisition cost \$22,444) with an established fair value of \$9.05 per length. The agencies have an urgent need for this rope to carry on an approved program, but they do not have funds to pay the established fair value of \$9.05 per unit. Although it is a stock fund item, the agencies have requested that the fair value be waived and the property transferred without reimbursement in accordance with GSA regulation 1-III.303.03a4(f). GSA concurs in their request and have approved the purchase orders accordingly.

Your decision at an early date will be appreciated.
Sincerely yours,

E. B. HERRON,
Chief, Utilization Branch, Utilization Division.

Ordering agency	Purchase order No.	Purchase order date	Government bill of lading No.
Department of the Interior, National Park Service.....	32-57-17	July 6, 1959	I-7084
Do.....	32-57-16	do.....	I-7085
Do.....	32-57-19	do.....	I-7086
Do.....	32-57-20	do.....	I-7087
Department of Commerce, Weather Bureau.....	W80-761	July 21, 1959	.....

RICHMOND QUARTERMASTER DEPOT,
U.S. ARMY,
Richmond, Va., November 3, 1959.

QMDRX-S (I. & A.)
GENERAL SERVICES ADMINISTRATION,
Federal Supply Service,
Washington, D.C.

GENTLEMEN: Reference is made to your letter dated September 23, 1959, attached. In view of the monetary value involved in the pertinent purchase orders, a decision of the Quartermaster General was requested in the releasing

of stock fund property without reimbursement, in excess of \$500. The decision of that office is that transfers outside the DOD will be made with reimbursement when value exceeds \$500. In view of this decision, the five purchase orders for nylon rope are returned disapproved.

A copy of the Quartermaster General's letter is attached, enclosure 2, for your information.

Sincerely yours,

KATHLEEN W. FISHER,
(For L. C. Oenning, Sr., Major, QMC, QM Data Processing Center.)

RICHMOND QUARTERMASTER DEPOT, U.S. ARMY,
Richmond, Va., October 9, 1959.

QMDRX-S (I. & A.).

GENERAL SERVICES ADMINISTRATION,
Federal Supply Service,
Washington, D.C.

GENTLEMEN: Reference is made to your letter dated September 23, 1959, enclosing purchase orders for nylon rope, from Department of the Interior and Department of Commerce on excess report A-1102-59-956, GSA control No. 10-59-5199.

In view of the monetary value involved in these purchase orders, the Quartermaster General has been requested to furnish instructions on funding policy relative to issue or transfer of stock fund property without reimbursement. Upon receipt of a reply your activity will be informed of action to be taken on referenced purchase orders.

Sincerely yours,

KATHLEEN W. FISHER
(For L. C. Oenning, Sr., Major, QMC, QM Data Processing Center.)

DEPARTMENT OF THE ARMY,
OFFICE OF THE QUARTERMASTER GENERAL,
Washington, D.C.

QMGGG-I 334.

Subject: Procedures for the transfer of DOD supply system inventories.

To: Commanding officer, U.S. Army General Supplies Commodity Center, Richmond Quartermaster Depot, Richmond, Va.:

1. Reference is made to:

(a) Letter, QMDRG-PF, USAGSCC, October 6, 1959, subject: "Issue of Stock Fund Property Without Reimbursement," requesting guidance with respect to the issue or transfer of stock fund property without reimbursement.

(b) "Procedure for the transfer of DOD supply system inventories" inclosed with letter, QMGGG-I, OQMG, September 9, 1959, subject as above.

2. Transfers of stock fund property to agencies outside DOD when the line item value exceeds \$500 will be guided by the following:

(a) Published Army regulations prohibit the issue of excess stock fund property on a nonreimbursement basis other than authorized exceptions. Transfer will be accomplished on a reimbursable basis using GSA fair value codes as published in AR 755-5.

(b) Property held under economic retention criteria will be transferred on a transferable-reimbursable basis.

3. The GSA regulation cited in inclosed letter and purchase orders is not applicable to the Quartermaster General.

4. AR 37-60, AR 37-61, and AR 735-7 have not been revised by the Army to provide for transfer of nonreimbursable property to other military agencies as authorized by reference 1b. Procedures are currently being reviewed by OQMG budget and accounting personnel to determine what interim measures can be taken to lift the restrictions of above cited ARs.

GORDON W. COOK,
Colonel, QMC,
Chief, General Supplies Division
(For the Quartermaster General).

DEPARTMENT OF THE NAVY,
BUREAU OF SUPPLIES AND ACCOUNTS,
Washington, D.C., November 16, 1959.

GENERAL SERVICES ADMINISTRATION,
Federal Supply Service, Washington, D.C.
(Attention Mr. E. B. Herron, Chief, Utilization Branch, Utilization Division
(FL)).

GENTLEMEN: This is in reply to your letter of November 5, 1959, in which you present justification for the transfer of excess Navy stock fund material to the Department of State, Washington, D.C., without reimbursement.

Regulations governing the operation of the Navy stock fund require reimbursement for any excess property transferred to another Federal agency except line items not exceeding \$500 acquisition cost. Therefore, transfer of the items on purchase order No. NC-27-10076-60 dated October 28, 1959, standard form 120 No. N-2-60-128, cannot be authorized without reimbursement.

It is noted that the purchase order requested transfer without exchange of funds in accordance with General Services Administration Regulation 1-III-303.03a.4(f). This paragraph does not apply to material financed by working capital funds. In this connection, your attention is invited to GSA Regulation 1-III-303.03a.1 which requires reimbursement.

In view of the need for the items, while they cannot be furnished without reimbursement, transfer may be accomplished at a reduced rate of 10 percent of the acquisition cost or approximately \$199.50 for both items.

It is requested that the Bureau of Supplies and Accounts, Utilization Disposal Division, code SD be informed of your decision in the above matter, at which time this Bureau will advise the Naval Supply Depot, Great Lakes, Ill.

Sincerely yours,

R. T. POWER,
Commander, SC, U.S. Navy,
Director, Utilization and Disposal Division.

By direction of Chief, Bureau of Supplies and Accounts.

DECEMBER, 21, 1959.

In reply refer to FLS.

COMMANDER R. T. POWER,
Director, Utilization and Disposal Division, Bureau of Supplies and Accounts,
Department of the Navy, Washington, D.C.

DEAR COMMANDER POWER: This is with reference to your letter of November 16, You advised that transfer of the 175 lister bags and kits on excess report No. N-2-60-128 to the Department of State, located at the Naval Supply Depot, Great Lakes, Ill., could not be authorized without reimbursement.

Your offer to transfer the property at a reduced rate of 10 percent of the acquisition cost was relayed to the Department of State. They advised that project funds are not available for transfer of the items with reimbursement at fair value.

In view of this, please return the State Department purchase order to this office for cancellation.

Sincerely yours,

L. C. TUTTLE,
Director, Utilization Division.

NOVEMBER 5, 1959.

In reply refer to FL.

DEPARTMENT OF THE NAVY,
Bureau of Supplies and Accounts,
Washington, D.C.
(Attention: Code SD).

GENTLEMEN: Enclosed is purchase order No. NC-27-10076-60, dated October 26, from the Department of State, Washington, D.C.

It is for 175 lister bags and kits located at Naval Supply Depot, Great Lakes, Ill. (report of excess personal property No. N-2-60-128, AFSSC Control No. 468705, GSA Control No. 5-60-2079).

The Department of State needs these items for approved programs overseas and funds are not available to pay the established fair value of \$817.95. They have requested that the fair value be waived and the property transferred without reimbursement in accordance with GSA Regulation 1-III-303.03a4(f). GSA concurs in this request and has approved the order accordingly.

Please let us have your decision at an early date.

Sincerely yours,

(Signed) F. P. D.

(For E. B. Herron, Chief, Utilization Branch, Utilization Division).

DECEMBER 11, 1957.

DIRECTOR, UTILIZATION AND SALES DIVISION,
Federal Supply Service, General Services Administration,
Washington, D.C.

DEAR SIR: Reference your letter FUU dated December 11, 1957.

Under the provisions of DOD Instruction No. 7420.3, June 9, 1955 "Authorized Donation of Surplus Material From Working Capital Funds to Health, Education, and Welfare" the value of the material donated to Health, Education, and Welfare is to be recorded in the appropriate account of the stock fund at the current stock fund price. Therefore, the stock fund is credited for full value of the items donated while in the case of transfers from the stock fund without reimbursement there results the complete loss of the items from the stock fund.

Army regulations specify that nonreimbursable transfers of excess property may be made where it is first determined that the estimated cost of preparation for sale, demilitarization and handling would exceed the fair value proceeds of sale as calculated by the fair-value formula. Moreover, in accordance with this principle, no charge should be made in any case where the transfer does not exceed \$500, at standard price per requisition line item. In addition, to the extent that excess property declaration forms have been executed prior to inclusion in the initial inventory capitalized in the stock fund, such excess material may be transferred without reimbursement.

In view of the fact that the request made in your letter of December 11, 1957, meets none of the conditions enumerated above, it is felt that the musical instruments should be donated to Health, Education, and Welfare in accordance with

Section 263(J) (1) of the Federal Property and Administrative Services Act of 1950, as amended.

Sincerely,

WARD T. BLACKLOOK,
Colonel, Quartermaster Corps,
Chief, General Supplies Division.

DECEMBER 11, 1957.

In reply refer to FUU.

OFFICE OF THE QUARTERMASTER GENERAL,

Washington, D.C.

(Attention: General Supplies and Equipment Division).

GENTLEMEN: We have been trying for some days to obtain utilization of the band instruments reported on Excess Report No. A-1130-58-950. These instruments have an acquisition cost of over \$450,000 and are reported as reimbursable.

Several agencies need these instruments, but do not have funds available for reimbursement. Requests for transfer on a nonreimbursable basis have been received from Bureau of Prisons and Bureau of Indian Affairs for over half of the total reported. We are confident that most of the instruments would be quickly distributed within the Federal system if the requirement for reimbursement could be waived. Of course if this is not possible, the entire quantity will be donated to various State organizations.

In view of the above, we request that an exception be made in this case, and the reimbursement requirement be waived in order to effect Federal utilization.

Sincerely yours,

L. C. TUTTLE,
Director, Utilization and Sales Division.

The interesting thing about this transaction is that utilization screening had been completed by GSA with an offering at 50 percent. This is an independent action of AF after the property had become surplus.

U.S. AIR FORCE,
Washington, D.C., July 17, 1959.

AFMSS.

Surplus wool sweaters.

Mr. R. D. STOWALL,

Chief, Excess Property Utilization Branch (O/IRD), International Cooperation Administration, Washington, D.C.

DEAR MR. STOWALL: 1. The Single Manager, Military Clothing, and Textile Supply Agency has turned over to the Air Force for disposal some 237,809 surplus wool sweaters located at Choll Air Force Station, Maywood, Calif. An additional quantity of surplus wool sweaters, approximately 296,000, located at Wilkins Air Force Station, Shelby, Ohio, will be transferred to the Air Force for disposal in the immediate future.

2. The Air Force has been endeavoring to maximize the utilization of these sweaters through reoffering to other Federal agencies thus reducing the quantity subject to disposal by sale to minimize the impact on commercial markets.

3. Informal discussion with representatives of your office indicate a quantity of 90,000 or more sweaters could be utilized providing cost was less than the fair value pricing formula for stock-funded material. The Department of Defense, for this particular transaction, has authorized the transfer of these sweaters at 5 percent of acquisition plus cost for packing, handling, and transportation as appropriate.

4. Attached for your information is the type, quantity, size, and location of sweaters immediately available and projected to become available in the near future.

5. The Air Force has scheduled inactivation of Choll Air Force Station, Maywood, Calif., in December 1959. It is therefore essential that these particular sweaters be immediately utilized by other Federal agencies or that the sweaters be immediately processed for sale.

AFMSS—CG Coord Cy.
 AFMSS—CG CmbkCy.
 AFMSS—CG Reading File Cy.
 AFMSS Off of Sig.
 AFMSS Reading File Cy.
 AFMDO Reading File Cy.

1. The following surplus sweaters are located at Cholf Air Force Station, Maywood, Calif.:

8405-163-8906 Sweaters, men's, wool, OD, QM Shade 30 A, pullover type, MIL-S-3007A, size medium:

Quantity: 109,905.

Unit cost: \$4.35.

Remarks: This total quantity has been frozen by DHEW.

8405-163-8907 Sweater, men's, wool, OD, QM Shade 30 A, pullover type, size small:

Quantity: 127,904.

Unit cost: \$4.35.

Remarks: Immediately available and must be transferred or sold due to inactivation of depot.

2. The following surplus sweaters located at Wilkins Air Force Station, Shelby, Ohio, are to be declared surplus in the immediate future:

8405-163-8906 Same as above:

Quantity: 109,905.

Unit cost: \$4.35.

8405-163-8907 Same as above:

Quantity: 127,904.

Unit cost: \$4.35.

6. Your advice as to quantities required and action taken to effect immediate transfer will be appreciated.

Very truly yours,

FREDERICK H. MILLER,
 Brigadier General, USAF,
 Deputy Director of Supply and Services.

DEPARTMENT OF THE NAVY,
 BUREAU OF SUPPLIES AND ACCOUNTS,
 Washington, D.O., March 26, 1959.

Mr. R. T. DALY,
 Acting Commissioner, Federal Supply Service, General Services Administration,
 Washington, D.O.

DEAR MR. DALY: Your letter of February 27, 1959, refers to a request from the Geological Survey, Department of the Interior, for transfer of a stereoscopic plotter without reimbursement of fair value. Your letter further states the definite need for the item and that funds to pay the fair value for the material are not available.

Regulations governing the operation of the Navy stock fund require reimbursement for any line item transferred to another Federal agency, except that no charge is made where the transfer does not exceed \$500 at standard price per requisition line item.

In view of the circumstances outlined in your letter the material will be transferred at 10 percent of the acquisition cost in lieu of the present 85 percent. If this is acceptable to the Geological Survey, it is requested that code SD of this Bureau be informed in order that the holding activity may be advised of this decision.

Sincerely yours,

L. P. KIMBALL, Jr.,
 Rear Admiral, SC, U.S. Navy,
 Deputy and Assistant Chief of Bureau.

FEBRUARY 27, 1959.

In reply refer to: FUU.

Rear Adm. J. W. BOUNDY,
U.S. Navy, Chief, Bureau of Supplies and Accounts, Department of the Navy,
Washington, D.C.

DEAR ADMIRAL BOUNDY: We have a request from the Geological Survey, Department of the Interior, for transfer of a stereoscopic plotter without reimbursement for fair value. This item of equipment was reported excess to Navy stock account by Naval Supply Center, Oakland, Calif, on report No. N-1775-50-228, AFSSC 067187. Geological Survey has stated they have a definite need for the items but do not have funds to pay the fair value.

GSA will approve the transfer under the provisions of GSA Regulation 1-III-303.03a4(f) if the Navy will waive the requirements for reimbursement. Since this transfer will assure excellent utilization of this property we ask that favorable consideration be given to this request.

Please advise this office of your decision.

Sincerely yours,

_____, Commissioner.

Defense stock funds, consolidated—Inventory summary, 1953-59, and forecast for 1960 and after

(In millions)

Inventory June 30, 1953.....	\$3,897.4
Inventory capitalized, net, July 1, 1953-June 30, 1959.....	11,687.5
Subtotal.....	<u>15,584.9</u>
Inventory, June 30, 1959:	
Peacetime stock requirement.....	\$1,737.6
Mobilization reserve stocks.....	2,690.2
Long supply.....	3,036.0
Total inventory June 30, 1959.....	<u>8,963.8</u>
Reduction of long supply, June 30, 1953 to June 30, 1959.....	7,222.1

Disposition of long supply:	June 30, 1953- June 30, 1959	1960 and after	Total
Sales without replacement:			
Sales, 1954-59, inclusive.....	\$25,008.3		
Purchases, plus markup.....	21,835.7		
Donations (to MAP, education, public health and civil defense, and others).....	532.6	157.0	690.6
Losses on disposal of surplus property.....	3,006.7	2,374.0	5,380.7
Price adjustments, losses (breakage, shrinkage) and miscellaneous.....	510.2	158.0	668.2
Total.....	7,222.1	3,090.0	11,158.1

Army stock fund—Inventory summary, 1953-59, and forecast for 1960 and after

[In millions]		
Inventory June 30, 1953.....		\$1,770.7
Inventory capitalized, net, July 1, 1953-June 30, 1959.....		9,229.5
Subtotal.....		11,000.2
Inventory, June 30, 1959:		
Peacetime stock requirement.....		860.0
Mobilization reserve stocks.....		1,742.4
Long supply.....		2,943.8
Total inventory June 30, 1959.....		5,546.2
Reduction of long supply, June 30, 1953 to June 30, 1959.....		6,484.0
Disposition of long supply:		

	June 30, 1953- June 30, 1959	1960 and after	Total
Sales without replacement:			
Sales, 1954-59, inclusive.....	\$12,013.2		
Purchases, plus markup.....	0,583.5		
Donations (to MAF, education, public health and civil defense, and others).....	446.3	85.0	531.3
Losses on disposal of surplus property.....	2,364.2	1,510.0	3,874.2
Price adjustments, losses (breakage, shrinkage) and miscellaneous.....	213.8	93.8	307.6
Total.....	5,464.0	2,943.8	8,307.8

Navy stock fund—Inventory summary, 1953-59, and forecast for 1960 and after

[In millions]		
Inventory June 30, 1953.....		\$1,810.5
Inventory capitalized, net, July 1, 1953-June 30, 1959.....		1,435.1
Subtotal.....		3,245.6
Inventory, June 30, 1959:		
Peacetime operating stock.....		621.2
Mobilization reserve stocks.....		705.5
Long supply.....		660.4
Total inventory June 30, 1959.....		1,987.1
Reduction of long supply, June 30, 1953, to June 30, 1959.....		1,258.5
Disposition of long supply:		

	June 30, 1953- June 30, 1959	1960 and after	Total
Sales without replacement:			
Sales, 1954-59, inclusive.....	\$5,548.0		
Purchases plus markup.....	5,956.8		
Donations (to MAF, education, public health and civil defense, and others).....	56.7	40.0	96.7
Losses on disposal of surplus property.....	544.6	290.0	834.6
Price adjustments, losses (breakage, shrinkage), and miscellaneous.....	66.0	35.4	101.4
Total.....	1,258.5	660.4	1,918.9

Marine Corps stock fund—Inventory summary, 1953-59, and forecast for 1960 and after

[In millions]

Inventory June 30, 1953.....	0
Inventory capitalized, net, July 1, 1953-June 30, 1959.....	4581.1
Subtotal.....	581.1
Inventory, June 30, 1959:	
Peacetime stock requirement.....	50.4
Mobilization reserve stocks.....	53.6
Long supply.....	272.9
Total inventory June 30, 1959.....	392.9
Reduction of long supply, June 30, 1953 to June 30, 1959.....	188.2

Disposition of long supply:

	June 30, 1953- June 30, 1959	1960 and after	Total
Sales without replacement:			
Sales, 1954-59, inclusive.....	457.6		
Purchases, plus markup.....	370.2		
Donations (to MAF, education, public health and civil defense, and others).....	18.6	29.0	47.6
Losses on disposal of surplus property.....	27.4	100.0	214.4
Price adjustments, losses (breakage, shrinkage) and miscellaneous.....	54.8	8.8	63.6
Total.....	188.2	272.9	461.1

Air Force stock fund—Inventory summary, 1953-59, and forecast for 1960 and after

[In millions]

Inventory June 30, 1953.....	4316.2
Inventory capitalized, net, July 1, 1953-June 30, 1959.....	441.8
Subtotal.....	768.0
Inventory, June 30, 1959:	
Peacetime stock requirement.....	200.0
Mobilization reserve stocks.....	177.7
Long supply.....	58.9
Total inventory June 30, 1959.....	436.6
Reduction of long supply, June 30, 1953 to June 30, 1959.....	321.4

Disposition of long supply:

	June 30, 1953- June 30, 1959	1960 and after	Total
Sales without replacement:			
Sales, 1954-59, inclusive.....	5,989.5		
Purchases, plus markup.....	5,925.2		
Donations (to MAF, education, public health and civil defense, and others).....	11.0	3.0	14.0
Losses on disposal of surplus property.....	70.5	34.0	104.5
Price adjustments, losses (breakage, shrinkage) and miscellaneous.....	175.6	20.0	195.6
Total.....	321.4	58.9	380.3

Department of Defense stock funds--Summary of inventory status and transactions, fiscal years 1956-58

[In thousands]

	Combined total	Army	Navy	Marine Corps	Air Force
Fiscal year 1956:					
Inventory beginning of fiscal year.....	\$10,851,736	\$7,539,095	\$2,384,842	\$340,991	\$637,308
Additions to inventory.....	4,983,019	2,320,649	1,218,386	187,146	1,220,839
Less: Deductions from inventory.....	(6,184,509)	(3,821,447)	(1,386,984)	(122,959)	(1,363,179)
Inventory status, June 30, 1956.....	9,620,186	6,544,297	2,165,744	405,177	604,968
Fiscal year 1957:					
Inventory beginning of fiscal year.....	9,598,248	7,239,044	1,478,288	406,078	774,238
Additions to inventory.....	7,011,192	3,623,076	2,092,794	124,509	1,270,213
Less: Deductions from inventory.....	(6,087,704)	(3,224,228)	(1,236,740)	(189,596)	(1,407,143)
Inventory status, June 30, 1957.....	10,551,736	7,539,095	2,334,342	340,991	637,308
Fiscal year 1958:					
Inventory beginning of fiscal year.....	7,966,625	5,510,323	1,542,857	365,820	547,625
Additions to inventory.....	6,209,373	3,789,038	967,797	107,412	1,345,126
Less: Deductions from inventory.....	(4,277,750)	(2,059,717)	(1,082,806)	(67,154)	(1,118,613)
Inventory status, June 30, 1958.....	9,898,248	7,239,044	1,478,288	406,078	774,238

STATUS OF DEPARTMENT OF DEFENSE STOCK FUNDS

The Department of the Army has installed the use of stock funds to cover all major categories of consumable materiel expected to be financed under stock funds, pursuant to this program, with the exception of aircraft spare parts. However, in the case of certain categories of materiel, stock funds are used only to finance stocks at the depot level which are under the management of the several technical services. However, as a test in the 3d Army, there has been installed a stock fund division which presently includes all of these categories of materiel at nine installations of the 3d Army. This Stock Fund Division, which is under the management of the Continental Army Command, if successful as expected, will be extended to the entire Zone of the Interior. This Division includes inventories of all materiel categories in the Technical Service Stock Fund Division, except Transportation Corps; however, it excludes engineer repair and utility supplies which are financed under installation allotments on a local purchase basis. It is expected that additional stock fund divisions would be established on a similar pattern for depot stocks for oversea commands.

The Department of the Navy, including the Marine Corps, has installed the use of stock funds at all shore supply activities on a worldwide basis for all major categories of materiel expected to be financed under stock funds, with the exception of aircraft spare parts. In addition, the stock fund is used to finance consumable materiel carried afloat in fleet issue ships and on a test basis in tender and repair ships. Studies are currently being made in Navy which are considering the extension of use of stock funds to certain combatant-type ships.

The Department of the Air Force has installed the use of stock funds at all levels for categories of materiel which are generally known as common use, but it has not used the stock fund to finance inventories of spare parts or other categories of technical materiel. It has not yet utilized the stock funds to finance general supplies below the depot level nor local procurement of common commercial consumption-type materiel.

The specific classes of property in stock funds, and the detailed value of these inventories as of June 30, 1959, were as follows:

[In thousands]	
Army total.....	\$5,540,180
Chemical supplies and equipment.....	34,287
Engineer supplies and equipment.....	451,880
Medical-dental.....	41,441
Ordnance supplies and equipment.....	2,050,780
Clothing and equipage.....	124,804
General supplies.....	242,940
Petroleum and allied equipment.....	106,017
Subsistence.....	116,205
Single-manager clothing and textiles.....	1,820,388
Single-manager subsistence.....	126,391
Signal supplies and equipment.....	850,752
Transportation supplies and equipment.....	67,679
Defense supply service.....	544
Navy, total.....	1,987,140
Special clothing and textiles.....	10,584
Photographic materiel.....	9,628
General stores.....	389,460
Ship's repair parts.....	481,642
Forms and publications.....	6,558
Medical and dental (retail).....	6,680
Provisions.....	59,801
Electronics repair parts.....	215,264
Submarine and reactor repair parts.....	39,793
Ship's store and commissary store stock.....	35,405
Resale clothing and accessories.....	29,358
Fuels and related items.....	162,351
Base equipment and repair parts.....	47,316
Other (special clearances and transactions).....	4,003
Single-manager medical and dental materiel.....	801,184
Scrap, salvage, and excess.....	179,163
Marine Corps, total.....	406,605
General property.....	121,338
Clothing and textiles.....	38,181
Ordnance, tank, automotive.....	150,018
Subsistence.....	5,089
Fuel supply.....	2,153
Construction supplies and related equipment.....	35,961
Commissary stores.....	2,027
Communication, electronic, and electric stocks.....	51,888
Air Force, total.....	436,645
Clothing.....	45,908
Medical-dental.....	24,268
Aviation fuel.....	235,168
General supplies.....	77,353
Commissary.....	53,646
Air Force Academy.....	302
Total.....	8,376,576

*Department of Defense stock funds—Summary of capitalized inventories,
inception to June 30, 1959*

	Combined total	Army	Navy	Marine Corps	Air Force
Balance at beginning.....	\$9,800,906,863	\$8,944,764,695	\$856,142,258	0	0
Changes to June 30, 1959:					
Inventories capitalized.....	3,527,672,958	870,233,693	1,466,152,639	\$439,872,397	\$761,314,229
Transfer of materiel (net).....	748,446,759	913,539,860	(206,691,044)	139,186,181	(7,588,238)
Less stock withdrawal credits.....	(212,367,041)	(151,141,823)	(1,000,000)	(7,028,541)	(53,106,077)
Total changes from inception to June 30, 1959.....	4,063,652,676	1,632,631,730	1,168,461,595	572,030,037	690,529,314
Balance, June 30, 1959.....	13,864,559,539	10,577,396,335	2,024,603,853	572,030,037	690,529,314

† Inventories capitalized at inception of stock fund.

Department of Defense stock funds—Summary of inventory status and transactions, fiscal years 1952-58

[In thousands]

	Combined total	Army	Navy	Marine Corps	Air Force
Fiscal year 1958:					
Inventory beginning of fiscal year.....	\$10,851,736	\$7,539,095	\$2,334,342	\$340,991	\$637,308
Additions to inventory.....	4,933,018	2,326,049	1,218,386	187,145	1,220,839
Less deductions from inventory.....	(6,184,568)	(3,321,447)	(1,388,984)	(122,959)	(1,353,179)
Inventory status, June 30, 1958.....	9,620,186	6,544,207	2,165,744	405,177	504,958
Fiscal year 1957:					
Inventory beginning of fiscal year.....	9,898,248	7,239,644	1,478,288	406,078	774,238
Additions to inventory.....	7,011,192	3,523,676	2,092,794	124,509	1,270,213
Less deductions from inventory.....	(6,057,704)	(3,224,225)	(1,236,740)	(189,596)	(1,407,143)
Inventory status, June 30, 1957.....	10,851,736	7,539,095	2,334,342	340,991	637,308
Fiscal year 1956:					
Inventory beginning of fiscal year.....	7,966,625	5,510,323	1,542,857	365,820	547,025
Additions to inventory.....	6,209,373	3,789,038	967,797	107,412	1,345,126
Less deductions from inventory.....	(4,277,750)	(2,059,717)	(1,032,366)	(67,154)	(1,118,513)
Inventory status, June 30, 1956.....	9,898,248	7,239,644	1,478,288	406,078	774,238
Fiscal year 1955:					
Inventory beginning of fiscal year.....	5,134,730	2,483,652	1,745,580	336,288	569,210
Additions to inventory.....	7,200,953	5,498,431	920,274	110,149	672,099
Less deductions from inventory.....	(4,369,058)	(2,471,760)	(1,122,997)	(80,617)	(693,684)
Inventory status, June 30, 1955.....	7,966,625	5,510,323	1,542,857	365,820	547,025
Fiscal year 1954:					
Inventory beginning of fiscal year.....	4,172,201	1,758,205	1,808,838	280,112	325,046
Additions to inventory.....	4,227,668	2,078,299	1,191,942	114,551	842,876
Less deductions from inventory.....	(3,265,139)	(1,352,852)	(1,255,200)	(58,375)	(598,712)
Inventory status, June 30, 1954.....	5,134,730	2,483,652	1,745,580	336,288	569,210
Fiscal year 1953:					
Inventory beginning of fiscal year.....	3,203,051	1,333,549	1,554,731	-----	314,771
Additions to inventory.....	2,805,990	1,395,364	1,334,204	-----	76,422
Less deductions from inventory.....	(2,116,952)	(970,708)	(1,080,097)	-----	(66,147)
Inventory status, June 30, 1953.....	3,892,089	1,758,205	1,808,838	-----	325,046
Fiscal year 1952:					
Inventory beginning of fiscal year.....	1,530,669	164,194	1,105,351	-----	261,124
Additions to inventory.....	4,825,396	2,997,465	1,510,783	-----	317,138
Less deductions from inventory.....	(3,153,004)	(1,826,110)	(1,071,403)	-----	(263,491)
Inventory status, June 30, 1952.....	3,203,051	1,333,549	1,554,731	-----	314,771

(Thereupon, at 12:15 p.m., the hearing was concluded.)