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ECONOMIC ASPECTS OF
MILITARY PROCUREMENT AND SUPPLY

REPORT

OF THE

SUBCOMMITTEE ON DEFENSE PROCUREMENT

TO THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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LETTER OF TRANSMITTAL

OCTOBER 23, 1960.

To Members of the Joint Economic Committee:

Transmitted herewith is a report by the Subcommittee on Defense Procurement appointed to conduct a study of the impact of defense procurement and disposal policies on the economy.

This study follows the subcommittee hearings on "The Impact of Defense Procurement" which were held January 28-30, 1960. In connection with those hearings, the subcommittee also released a committee print on "Background Materials on the Economic Aspects of Military Procurement and Supply" which was prepared by temporary staff members assigned to this study.

PAUL H. DOUGLAS,
Subcommittee on Defense Procurement.

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CONCLUSIONS AND RECOMMENDATIONS

GENERAL

The Joint Economic Committee held public hearings on January 28, 29, and 30, 1960, on the subject of the economic impact of military procurement and related matters.

Chairman Douglas emphasized that the subcommittee would limit its study to the impact of procurement and disposal policies on the economy, that it would not be concerned with questions of military strategy, weapons, size of forces, etc.—nor with the broad problem of the overall economics of disarmament—but with the purely economic and budgetary issues involved in the way the Nation spends over two-thirds of its budget.

Our economy can and must bear any necessary defense expenditures for the present and for the long pull ahead. There is no acceptable alternative to this position. However, the economy should not be required to shoulder the great burden of waste and inefficiency that has characterized the duplicative and overlapping military supply and service systems for the past two decades.

The billions that have been wasted could have been used for more adequate national defense for missiles, for submarines, for the better supply of troops with modern weapons, and for such civilian needs as schools, hospitals, urban redevelopment, roads, conservation, and debt or tax reduction. It is a shame that the military bureaucracies are wasting the precious economic lifeblood of this country, and simultaneously stinting both the military and civilian programs of essential needs. This is a nonpartisan issue of great moment.

SCOPE OF ACTIVITIES

Conclusions

Military procurement has had a major impact upon the national economy and segments thereof during the past two decades. Procurement of supplies, materials, and weapons amount to \$22 to \$25 billion per year. From fiscal year 1950 to 1959, inclusive, there have been 38 million procurement transactions with a dollar volume of approximately \$228.4 billion.

Military transportation bills amount to several hundred million dollars annually.

The inventories of supplies in the many duplicating military supply systems amount to some \$44.4 billion and are stored in 585 million square feet of depot space throughout the world.

The annual cost of maintaining the many military supply systems is conservatively estimated at \$2 billion.

The annual disposal of surpluses according to congressional testimony runs from \$8 to \$10 billion, with a net return on sales of less than 2 percent of cost. Many of the sales have a serious impact upon

portions of the economy, yet the Commerce Department, which is charged with responsibility of aiding, fostering, and assisting business, is in an advisory position to the DOD with respect to the conduct of surplus sales.

While most of the surplus property is worn or obsolete or obsolescent, much of it is in a new, unused condition and fully usable in the DOD itself and in other executive agencies. It is not actually excess or surplus but mismanaged property.

QUALITY OF OPERATION

The overuse and misuse of the stock fund supply corporations which have assets of some \$10 billion has caused the Government to lose hundreds of millions of dollars' worth of good, usable property because of the insistence on the payment of a price incident to the transfer of Federal property between Federal agencies.

Despite congressional intent and a Presidential mandate, negotiated procurement has become the overwhelming rule instead of the exception in the procurement of military items. By dollar value 86.6 percent of all procurements are made by negotiation rather than by the time-honored written competitive bid procedure. Thirty-seven percent of the procurement dollar goes to the 10 largest suppliers; 74 percent goes to the 100 largest suppliers. Small business is receiving an ever-decreasing amount of the procurement dollar.

The use of the great military expenditures as an economic tool has not been fully exploited. Though there are areas of chronic economic distress in many States, the State of California, in fiscal 1959, received 24.3 percent of the total, or as much of the procurement dollar as the next 4 largest recipient States and as much as the 37 smallest recipients.

Since military procurement, to a large extent, is not conducted on a fully competitive, free enterprise concept, it is apparent that subjective decisions by procurement officers have a heavy impact for good or ill upon the national economy.

The extensive use of cost-plus and other contracts where the Government bears all, or most, or part of the costs, has created a problem as to the ownership of the know-how and patent rights resulting therefrom. It must be concluded that public expenditures are creating vast new public domains which should be made available under Government direction to all as a matter of right and for the expansion of our economy. It is noted that there is considerable variance in the patent laws of the various Federal agencies.

The results of the overlapping and duplication in military supply and service systems are poor requirements determination, overbuying, overstocking, concurrent buying and selling of the same items, and excessive obsolescence, deterioration, and disposal. A vigorous, long-promised, and specially legislated standardization program is not in effect due largely to the multiplicity of semiautonomous agencies and the lack of overall direction and control by any one of them.

A reasonable estimate of possible economy in a properly organized DOD logistics system is 10 percent in procurement, or from \$2 to \$2½ billion annually, and at least 10 percent in the management of the supply systems which now cost an estimated \$2 billion. A utilization

program with real teeth would produce economies which would run into the hundreds of millions of dollars annually. An effective standardization program would create savings of at least \$450 million annually. The possibilities of economies through better procurement, transportation, and disposal are incalculable.

The competition of the many military supply systems, including prime contractors for material, much of it scarce, and for items, personnel, and facilities, especially under cost-plus contracts, is highly inflationary.

While the major portion of the efforts of the Joint Economic Committee hearings were directed to military procurement, it is noted that there is a large degree of overlapping, waste, and inefficiency in the many service systems of the Defense agencies, such as engineering, medical, communications, auditing, recruiting, commissaries, PX's, etc., etc., and the Congress has vested the Secretary of Defense with ample authority to effectively cope with all of these matters.

In general, the quality of the supply management performance projected against the enormous volume of activity conveys a very disheartening picture.

ATTEMPTS AT PROGRESS

Many congressional efforts have been made during the past 40 years to improve management in the Federal Government. Three general agencies have been established with wide authority. They are the Bureau of the Budget, and the General Services Administration in the executive branch and the General Accounting Office in the legislative branch.

In addition to the establishment of the overall agencies there have been many specific attempts by Congress to improve supply management in the Government. The two Hoover Commissions dealt with this subject to a large extent and there have been numerous congressional hearings, investigations, reports, and even special legislation on this subject.

Regardless of its vast authority, prestige, and responsibility for the budget, national debt, and other fiscal matters, and for management improvement and reorganization in the executive branch, the Bureau of the Budget in the Executive Office of the President has been relatively inactive in an area which offers the greatest possible potentialities for efficiency, economy, and effectiveness. In recent months it has made two or three excellent studies and reports which are a sample of the greater possibilities.

The General Services Administration was established 11 years ago by an overwhelming vote in Congress and with the endorsement of the Hoover Commission, the general public, and the Executive Office of the President. Despite this wide support and recognition of need, GSA's role vis-a-vis the Department of Defense concerning Government-wide common supply and service functions has not been defined, confirmed, nor implemented. The Budget Bureau, in fact, has at the least assisted in the preparation of a Presidential directive allowing the Secretary of Defense to exempt his agency from GSA regulations though the record shows, and Budget witnesses confirm, that GSA does a more efficient, effective, and economical job in these functions than does the DOD.

The General Accounting Office has been the most active of the over-all agencies in investigating and reporting on military supply management. According to the Comptroller General, the GAO has made 200 or more studies and reports in the past 2 years. At least 100 of these deal with supply and service management in the DOD. The contracts reviewed by the GAO as a basis for many of the reports are in the judgment of the Comptroller General a fair sample of the vast number which cannot be reviewed for want of staff.

SUMMARY OF GAO FINDINGS

A review of the numerous reports concerning supply and procurement issued by the General Accounting Office within the past few years shows clearly that the actions taken by the Department of Defense and the military departments to improve supply operations are, at best, only half measures. Interservice supply procedures designed to preclude the buying of items by one service when another service has a surplus of the items have not been effective. In supply and procurement matters, it is quite obvious that each department considers itself a separate and distinct entity and little thought is given to coordinating with other services before purchasing or disposing of expensive items. Almost nothing has been done to correct the lack of continuity of top management officials at both headquarters and base levels. Sufficient and necessary action has not been taken to imbue supply management officials with a philosophy that full value must be received for the taxpayers' dollar. Instead, the emphasis continues to be to spend and spend rather than exerting a maximum effort to cure supply management weaknesses that tend to dissipate funds sorely needed for the defense of the Nation. Measures instituted by the Department of Defense to bring about better coordination between the services have fallen far short of the purposes intended. Contracting practices, policies, and procedures show signs of improving, but much remains to be done particularly in the light of the vast sums of money expended in this area.

It is imperative that the Department of Defense and the military departments proceed without delay to find means which will assure greater economy, efficiency, and coordination in supply operations. To this end, particular attention should be given to the provisions of the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958 (72 Stat. 514), which permit the Secretary of Defense to combine common supply activities of the military departments under a single agency or organization. In the interest of national defense the Nation can no longer afford the types of deficiencies, waste, and extravagance which continue to exist year after year in military procurement and supply activities. Drastic action to correct this problem is needed and must be taken now.

During the past 16 years, many specific efforts have been made to bring about more standardization, integration, and unification in the management of common supply and service activities among the military services in order to stop the crucial waste of resources in our economy and to improve effectiveness of effort. This same problem was partly solved among the eight Navy bureaus 70 years ago by the consolidation of some common functions in one agency. A similar at-

tempt was made among the several Army corps during World War II but abandoned in 1946. Many of the attempts have been substitutes and guises for genuine organizational improvements.

Also many of the actions which have been taken by the numerous, and generally short-termed, managers of the Pentagon have been dictated by the desire of the military departments, services, and agencies to remain autonomous. Consequently, proclaimed improvements may be categorized in a general way as cross-servicing devices—coordination, collaboration, joint operation, and, more lately, single managers. These arrangements have the weaknesses of maintaining the individual systems rather than consolidating them. They merely parcel out the tasks to be done.

Cooperation, coordination, collaboration, etc., etc., are very necessary and desirable but are not substitutes for solid organization. They should not continue to be used as Fabian tactics to frustrate proper unified organization.

The idea of a consolidated supply agency at the Office of the Secretary of Defense level, with an elite personnel, was recommended by the Bonner Committee and the Joint Economic Committee members in 1952 and the second Hoover Commission in 1955.

The single manager plans have been the best of the arrangements as they provide more integration, but they are still wanting in many respects. The managers serve in double roles as department and Department of Defense representatives and no one can serve two masters who have different objectives. There is lack of the supervision, direction, and control needed to standardize items and streamline operations. There are too many councils, departments, and services who can delay, frustrate, or veto.

There have been many studies and feasibility tests of the obvious—that one service can efficiently buy, store, distribute, and otherwise manage common supplies for all. This principle of supply management does not need further testing. It needs wide application.

The single manager plans have again proved the feasibility of common supply management. These plans, however, are only steps toward better organization. To establish separate single managers for the 17 or more common supply and numerous service activities and parcel them out to the three military departments would not solve the problem. The point of common management of common activities has been proved.

The time has come to consolidate these and other common operations into a consolidated system such as the Navy found necessary for its eight bureaus many years ago and the Army during the stress of war and as advocated by the Hoover Commission and many others.

According to witnesses before the Joint Economic Committee there is ample authority in the existing legislation, particularly the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958, to establish efficient, economical, and effective supply and service units in the DOD. This authority to date has been used very sparingly.

RECOMMENDATIONS

1. The Secretary of Defense should use his broad authority, especially under the O'Mahoney and McCormack-Curtis amendments, at

once to begin consolidating the many common supply activities in the Department of Defense (DOD) into a common agency operating at the Office of the Secretary of Defense level.

The consolidated agency should be staffed with a highly trained, well-paid DOD corps of experts drawn from the existing services, industry, and Government and responsible to the Secretary of Defense.

The consolidated agency, assisted by necessary advisory groups, should have control of all facets of common supply management from requirements determination through procurement, transportation, storage, issuance (utilization), and surplus disposal.

It must have authority over cataloging and standardization of specifications.

It should be given control over common supply funds.

2. Every effort should be made to use the time-honored, formally advertised, full competitive bid procedure for procurement in lieu of the subjective negotiation procedures. This applies also for procurement of components used in various end items by Government agencies and cost-plus contractors. The normal distribution systems of industry should be used to the maximum in lieu of costly warehousing of civilian-type items.

3. The Bureau of the Budget (BOB) should assist in every possible way to expedite the establishment of the consolidated supply agency and in establishing other consolidated service functions. The BOB should be of special assistance with regard to the transfer of funds, personnel, facilities, etc.

4. The role of the General Services Administration (GSA) vis-a-vis the DOD should be spelled out at least for the next 5 years, approved by Presidential directive, fully implemented, and supported by the Executive Office. Needed funds, facilities, and personnel should be transferred with transferred functions.

5. The Commerce Department should be given definite authority of approval over surplus property disposals which may have adverse impacts on the national economy.

6. The Commerce Department, Labor Department, and Small Business Administration (SBA) should be brought into consultation with respect to procurement and other supply actions affecting the economy in order to obtain a more equitable allocation of defense business.

7. BOB, DOD, and GAO should come to a decision as to the proper use of stock funds and rescind funds not absolutely justified.

8. The proper legislative committees should sponsor uniform patent legislation applicable to Government contracts, based upon the principle that Government expense creates Government property.

9. All other common service activities as intended by the McCormack-Curtis amendment should be carefully reviewed by top management and placed under consolidated management wherever practicable. This includes communications, auditing, engineering, recruiting, medical care, to name a few, both at home and abroad.

ECONOMIC ASPECTS OF MILITARY PROCUREMENT AND SUPPLY

INTRODUCTION

The Joint Economic Committee has authority to make reports and recommendations on various aspects of the national economy.¹ In several of its reports in recent years reference has been made to the impact of military procurement on the economy (app. 1).

The committee has consistently taken the position that our economy can afford any necessary defense expenditures. It goes without saying that what is actually needed must be obtained. Liberty and survival are priceless.

The committee also has repeatedly stated that defense expenditures are not the best way to create and sustain needed economic growth and that unnecessary waste and inefficiency in defense expenditures must be "ruthlessly eliminated" as General Eisenhower also stated.² That this objective has not been accomplished is undeniable and is a matter of great importance to our economy and to our defense.

In 1952 members of the committee were impressed by the intensive investigations and reports of the Bonner and Hébert subcommittees of the House of Representatives concerning waste and inefficiency in military supply management and so sponsored legislation known as the O'Mahoney amendment to the Defense Appropriation Act of 1953. This amendment, which is permanent legislation, provides for the development of "an integrated supply system" in the Department of Defense. Military officers and agencies are prohibited by it from obligating funds for supply management functions except in accordance with regulations issued by the Secretary of Defense to carry out the intent of the law.³

Initially, considerable progress was made as a result of this legislation⁴ but it was short lived. By 1954 divisive service interests had

¹ Sec. 5(b)(3) of the Employment Act of 1946 (Public Law 304, 79th Cong., 2d sess.) reads:

"It shall be the function of the Joint Committee—as a guide to the several committees of the Congress * * * to file a report * * * with respect to each of the main recommendations made by the President in the Economic Report and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems advisable." [Emphasis added.]

² Gen. Dwight D. Eisenhower's letter of June 2, 1945, to the Honorable Clifton Woodrum, chairman, select committee, House of Representatives, Washington, D.C., hearings, pp. 64-66 (see also p. 73): "Efficiency must be attained with maximum economy. (This means: (1) Expensive duplication must be ruthlessly eliminated."

He also stated in his state of the Union message of Jan. 9, 1959: "We can afford everything we clearly need, but we cannot afford one cent of waste. We must examine every item of governmental expense critically. To do otherwise, would betray our Nation's future."

³ For text of O'Mahoney amendment and committee report see pp. 155-156, staff report. See also, Commission on Organization of the Executive Branch of the Government, "Task Force Report on Food and Clothing, April 1955," pp. 84-87, 105-109.

See also "Food and Clothing," H. Rept. 2013, Committee on Government Operations, Apr. 18, 1956, p. 19 ff.

⁴ See "Federal Supply Management" (Implementation of Military Supply Regulations). Hearings by a subcommittee of the Committee on Executive Expenditures in the House of Representatives, 82d Cong., 2d sess., Dec. 3-5, 1952.

influenced the new and inexperienced Secretary of Defense and associates, with the Budget Bureau acquiescing, that the way to improvement in military supply management is through intradepartmental action with each department separately administered and not through an integrated common supply system as intended by the O'Mahoney amendment.⁵

This reversal in top policy and the subsequent dissolution of an integrated medical supply and equipment test at Alameda, Calif., caused adverse criticism from many Members of Congress, Hoover Commission members and their task forces, and the public.⁶

Hurriedly, single manager plans, essentially comparable to the Alameda medical test, for a few supply classes were parceled out to the Army and Navy in late 1955 and 1956 and then action ceased.⁷

Widespread discontent with progress in integrating common supply and service activities led to the passage of the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958 which broadens the authority of the Secretary of Defense to provide for the operation of common supply and also service functions through such an entity or entities as he determines proper.⁸

A relentless bombardment of scores of reports from the General Accounting Office critical of wasteful supply practices in the DOD raised⁹ the doubt as to whether the McCormack-Curtis amendment was being implemented or merely allowed to rest and atrophy on the statute books like the O'Mahoney amendment of 1952. On January 15, 1959, Senator Douglas by letter asked Secretary McElroy for (1) a listing of common supply and service activities falling within the scope of the McCormack-Curtis amendment, and (2) "what plans or actions have been taken," or (3) "are contemplated" with respect to them.¹⁰

This letter was acknowledged on January 29, 1959, and after staff conferences, was answered in detail on July 10, 1959. In general, progress has been slow, laborious, and painful, considering the needs and potentialities. One of the areas where most progress toward integration has been claimed by the Assistant Secretary of Defense (S & L) is in the "single manager plans," for common supply and services. However, another Assistant Secretary of Defense (Comptroller) repeatedly downgraded the "single manager" effort.¹¹

The opposite points of view of two Assistant Secretaries of Defense as to the effectiveness of single manager plans were so apparent as to require a review.¹²

It also became evident to committee members during the January 1959 hearings on the President's Economic Report that this most

⁵ Staff report, pp. 139, 231-236.

⁶ Staff report, pp. 106-109, 221, 231-236.

⁷ Congressman Curtis' letter of Jan. 19, 1955, to Hon. Charles E. Wilson, pp. 192-199, hearings, subcommittee of the Committee on Government Operations, House of Representatives on Commission on Organization of the Executive Branch of the Government (Food and Clothing Report), 84th Cong., 1st sess. (See also hearings, pp. 480-486.)

⁸ See hearings, p. 180.

⁹ See Congressman McCormack's letter of Jan. 18, 1960, to Senator Douglas re intent and content of amendment, p. 1; 202 staff report.

¹⁰ Staff report, p. 100; 165-199; Hearings, pp. 2-30; 450-467.

¹¹ Staff report, pp. 210-217.

¹² January 1959 hearings on "Economic Report of the President," pp. 679-680; staff report, pp. 45-61; p. 9, pt. 4, DOD appropriations, 1960, House of Representatives.

¹³ See hearings, pp. 491-497 (House Majority Leader McCormack asks Secretary McElroy for an authoritative evaluation of the single manager plans in view of the contradictory testimony on them by DOD witnesses).

important subject of military supply and service management, involving potential savings of billions of dollars was not comprehended let alone being ruthlessly attacked by those responsible for top management in the executive branch.¹³ As stated by Congressman Clarence J. Brown, father of both Hoover Commissions and one long interested in securing economy in defense procurement, to Budget Director Stans:

If this is not a management and organizational problem of the highest order, then there is none.¹⁴

Acknowledgment is made of the nonpartisan efforts many Members of Congress who have given their support to the efforts that have been made during the past decade to improve the management of supply and service activities in the Department of Defense and in related activities in the General Services Administration.

Particular mention should be made of Majority Leader McCormack and Congressman Thomas B. Curtis as sponsors of the McCormack-Curtis amendment of 1958 and to Congressman Brown as father of the Hoover Commission and Senators O'Mahoney, Douglas, and Congressman Bonner as sponsors of the O'Mahoney amendments of 1952 and 1957. The Committee of Hoover Commission Task Force members has also remained active and most helpful in this area. With support from President Hoover they have continued at personal expense to assist in many ways in this work which they consider the most fruitful management improvement area in the Federal Government and one of great impact on the national economy. The U.S. Chamber of Commerce has also taken an active, persistent, and nonpartisan interest in the matter.

GENERAL SUMMARY

We learned several economic lessons from World War II:

First, we learned of the all-out total nature of modern war. No longer is war a matter of a few professional or mercenary soldiers going to battle while the home folk are relatively secure. We know now that all human and physical resources must be geared to an all-out effort. The effort requires top level management of high caliber. It means obtaining the most from the least, of directing our resources toward national objectives understood by all.

Second, we learned and should remember that we are not a nation of inexhaustible resources and we have found it necessary to comb the world for strategic and critical materials needed for our great and complex modern supply systems of millions of items. Elemental prudence and the desire for survival should dictate a careful husbandry of our resources for the long pull. Yet such was not the case during World War II nor is it now during the cold war which may last for generations and, in the words of President de Gaulle, "engulfs resources."

¹³ See statements of Budget Director Stans in hearings before the Joint Economic Committee, 86th Cong., 1st sess., Jan. 28, 1959, pp. 66-68.

¹⁴ Staff report, pp. 227-229.

Third, we learned a lesson in the need for unity and economy, as stated by Secretary Stimson:

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 that strategic economy which exerts maximum force with limited national resources. Without increased unity we cannot 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.¹

Fourth, we learned that there is no longer land war, sea war, or air war, as such, in major conflict. They have been merged—or fused—by modern weapons.

General Eisenhower stated before the Armed Services Committee of the Senate on March 25, 1947:

During those long months in Europe I and my associates came to understand that in a major conflict there was no such thing as a separate land, sea, or air war. Single purpose and direction and careful balancing of forces were necessary. We, therefore, came to believe that in the broader field of preparation and production of forces, in planning and in control of operations, a closely knit headquarters in Washington would add to national efficiency and economy.

All agreed that single command in the field was essential; for my part this incontestable truth applied equally to the Washington management from which the orders for the field commander must come.

We have learned that it is not only the size of the gross national product which is important but the effectiveness to which it is directed toward national objectives. An undetermined amount of the \$27 billion worth of surplus, excess, and long supply of property in military depots constitutes a portion of the gross national product which is not a military asset but a liability in that it is costly to warehouse, maintain, inventory, and control, and yet is of no foreseeable value to the military and may, if sold, have an adverse impact on segments of the economy. The tons of steel, copper, aluminum, zinc, and other materials, some strategic and critical; and the engineering, manpower, and other resources which have gone into these unneeded products could well have been put to better use in connection with other programs and products essential to our military and economic well-being.

As stated elsewhere in this report, however, (pp. 39-41, 52-54) there is much of the so-called excess and surplus property which is needed by the military agencies themselves. The Budget Bureau has proved that some agencies are buying many of these items as others dispose of them. Some of this property is new and unused and is not worn, obsolete, obsolescent or inferior. Other property that is not in A-1 condition could be used if the philosophy were "to use it up, wear it out, make it do."

The chairman of the Joint Economic Committee, in concert with other members, decided in August 1959 to hold hearings on the "Im-

¹ "On Active Service in Peace and War," Stimson & Bundy, p. 520.

fact of Defense Procurement on the Economy" and appointed a special subcommittee on the subject consisting of Senator Douglas, chairman, Senators Sparkman, O'Mahoney, Javits; and Congressmen Patman, Bolling, Curtis, and Widnall. The chairman also secured the services of a temporary staff to prepare background material on the subject. This has been printed as "Background Material on Economic Aspects of Military Procurement and Supply," dated February 16, 1960, and is referred to herein as "staff report."

On January 28, 29, and 30, 1960, the Special Subcommittee on Military Procurement held hearings with the following testifying and/or filing statements:

Hon. Joseph Campbell, Comptroller General of the United States.

Hon. Franklin Floete, Administrator, GSA.

Ray Ward, staff member, special subcommittee.

Richard J. Newman, staff member, special subcommittee.

Hon. Jamie L. Whitten, Representative, House of Representatives.

Hon. Elmer B. Staats, Deputy Director, Bureau of the Budget.

Hon. Perkins McGuire, Assistant Secretary of Defense (S & L).

Perry Shoemaker, president, Delaware, Lackawanna & Western Railroad.

U.S. Chamber of Commerce (filed a statement).

The hearings were printed and released on April 25, 1960, and are referred to as "hearings." There follows a special subcommittee report as a result of consideration of the staff report, the hearings, and related information.

PART I

SCOPE AND ECONOMIC IMPACT OF MILITARY SUPPLY AND RELATED FUNCTIONS

GENERAL

It is impossible to convey a complete picture of the colossal scope of military supply and related functions. First, it is most difficult to identify these functions from closely related functions. Then, it is difficult to find standards or measures for comparative purposes.

It is often stated that the military supply system is so many times larger than our largest corporation—or that its assets are 17 times larger than the General Motors Corp. industrial complex, etc.

A better comparison is to consider that a large number of giant corporations obtain up to 100 percent of their business solely from defense procurement. A study made by the Library of Congress shows the extent of defense sales as a percent of total company sales for 43 corporations:¹

Net value of their military prime and contract awards, July 1, 1957–June 30, 1958, and defense sales as percent of total company sales, 1958¹—43 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.....	661.1	88.0
Douglas Aircraft Co.....	513.4	78.7
Martin Co.....	400.2	99.2
Sperry-Rand Corp.....	370.1	41.0
Chance Vought Aircraft, Inc.....	360.4	(?)
McDonnell Aircraft Corp.....	352.0	(?)
International Business Machines Corp.....	316.5	20.0
Radio Corp. of America.....	288.3	25.9
Northrop Aircraft, Inc.....	283.5	(?)
General Motors Corp.....	280.9	5.0
Westinghouse Electric Corp.....	269.3	19.0
Republic Aviation Corp.....	264.7	(?)
Chrysler Corp.....	258.6	15.0
Grumman Aircraft Engineering Corp.....	245.2	(?)
Raytheon Manufacturing Co.....	237.0	86.0
Bendix Aviation Corp.....	207.5	73.0
General Tire & Rubber Co.....	159.8	46.0
Ford Motor Co.....	156.6	9.3
Fairchild Engine & Airplane Corp.....	103.2	(?)
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	(?)

See footnotes at end of table.

¹ Hearings, p. 533.

MILITARY PROCUREMENT AND SUPPLY

Net value of their military prime and contract awards, July 1, 1957-June 30, 1958, and defense sales as percent of total company sales, 1958¹⁻⁴ military prime contractors—Continued

[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
Food Machinery & Chemical Corp.....	57.8	22.0
Thiokol Chemical Corp.....	56.8	83.5
General Precision Equipment Corp.....	52.9	66.0
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	(⁵)
Kaman Aircraft Corp.....	31.6	(⁵)
Westinghouse Airbrake Co.....	31.5	33.0
Temco Aircraft Corp.....	29.7	(⁵)
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.

Other tables which indicate the relationship between the Government business and total sales of airframe manufacturers were supplied by Chairman Vinson of the House Armed Services Committee:²

Year	Percent Government sales	Firm	Total sales	Government furnished property	Invested capital	Percent profit on capital	Profit before taxes
1952..	99.6	Boeing Airplane Co.....	\$732,687,874	\$84,373,687	\$35,203,414	120.6	\$42,462,109
1953..	99.8	do.....	913,045,946	101,177,466	35,203,414	152.3	53,618,173
1954..	99.8	do.....	1,022,676,265	133,850,719	60,000,000	110.4	66,226,023
1953..	88.0	Douglas Aircraft.....	769,847,847	77,388,222	30,128,737	148.2	44,651,175
1954..	82.6	do.....	754,399,991	127,221,178	31,559,935	133.9	42,246,399
1953..	99.3	Fairchild Engine & Airplane Co.....	170,135,266	26,280,000	2,310,207	214.0	14,045,761
1953..	99.4	Grumman Aircraft & Engineering Corp.....	240,857,669	24,638,000	10,000,000	240.1	24,013,510
1953..	93.9	Lockheed Aircraft.....	820,467,000	83,865,000	22,684,710	238.7	54,150,822
1953..	98.3	Glenn L. Martin.....	208,006,538	33,504,707	18,883,222	79.9	15,094,756
1954..	99.6	do.....	270,729,973	38,466,611	26,073,351	80.7	21,052,315
1953..	99.2	North American Aviation, Inc.....	634,688,156	87,900,000	6,544,971	612.0	40,073,361
1954..	99.5	do.....	645,821,018	92,173,000	6,544,971	802.0	52,479,736

² Hearings before the Committee on Ways and Means, House of Representatives, 86th Cong., 1st sess., on "Extension of the Renegotiation Act," Apr. 27-29, 1959, p. 186.

Also the following table: ³

Firm	Year	Total sales	Percent of Government sales	Profit before taxes	Percent of profit on sales	Invested capital	Ratio of sales to capital	Percent of profit on capital
Boeing Airplane Co.....	1952	\$731,687,874	99.6	\$42,462,109	5.8	\$35,203,414	22.78	120.6
	1953	913,045,946	99.8	53,618,173	5.9	35,203,414	25.94	152.3
	1954	1,022,676,265	99.8	66,226,023	7.3	60,000,000	17.04	110.4
Douglas Aircraft Co., Inc.....	1953	769,847,847	88.0	44,651,175	5.8	30,128,737	25.55	148.2
	1954	754,399,991	82.6	42,246,399	5.6	31,559,935	23.90	133.9
	1953	170,135,266	99.3	14,045,761	8.3	2,310,207	73.65	214.0
Fairchild Engine & Airplane Co.....	1953	240,857,669	99.4	24,013,510	10.0	10,000,000	24.09	240.1
Grumman Aircraft Engineering Corp.....	1953	820,467,000	93.0	54,150,822	6.6	22,684,710	36.17	238.7
Lockheed Aircraft Corp.....	1953	208,006,538	98.3	15,094,756	7.3	18,883,222	11.02	79.9
The Glenn L. Martin Co.....	1954	270,729,973	99.6	21,052,315	7.8	26,073,351	10.38	80.7
North American Aviation, Inc.....	1953	634,688,156	99.2	40,073,361	6.3	6,544,971	96.97	612.0
	1954	645,821,018	99.5	52,479,736	8.1	6,544,971	98.67	802.0
	1952	50,440,828	99.4	4,664,299	9.3	4,069,286	12.40	114.6
Temco Aircraft Corp.....	1953	71,373,765	97.6	9,046,713	12.7	7,027,992	10.16	128.7

Firm	Year	Government-furnished property	Ratio of sales to Government property	Company investment in plant and equipment	Ratio of sales to company investment in plant and equipment	Plant and equipment depreciated	Ratio of sales to plant and equipment depreciated	Net worth	Percent of profit on net worth
Boeing Airplane Co.....	1952	\$84,373,687	4.88	\$34,570,271	21.17	\$16,500,488	44.34	\$65,806,244	64.5
	1953	101,177,466	6.09	42,183,971	21.64	21,553,595	42.36	78,447,654	68.4
	1954	133,850,719	6.82	46,484,702	22.00	22,167,795	46.13	100,694,555	68.8
Douglas Aircraft Co., Inc.....	1953	77,388,222	4.59	47,223,173	16.30	32,343,891	23.80	98,603,636	45.3
	1954	127,221,178	4.50	61,504,647	12.27	38,485,944	19.60	120,891,165	34.9
	1953	26,280,000	4.37	14,542,831	11.70	9,249,905	18.39	23,315,564	60.2
Fairchild Engine & Airplane Co.....	1953	24,638,000	0.78	13,110,795	18.37	7,547,045	31.91	35,881,324	66.9
Grumman Aircraft Engineering Corp.....	1953	83,865,000	12.76	56,980,769	14.40	28,145,727	29.15	73,095,327	74.1
Lockheed Aircraft Corp.....	1953	33,504,707	5.02	19,136,107	10.87	11,995,808	17.34	27,495,056	54.9
The Glenn L. Martin Co.....	1954	38,466,611	6.53	19,020,954	14.23	11,135,631	24.31	47,077,110	44.7
North American Aviation, Inc.....	1953	87,900,000	6.65	29,754,311	21.33	16,703,114	38.00	65,061,562	61.6
	1954	92,123,000	6.77	33,622,220	19.21	18,038,148	35.80	77,794,957	67.5
	1952	5,967,678	8.45	316,076	159.58	162,741	309.95	(1)	(1)
Temco Aircraft Corp.....	1953	12,717,124	5.61	2,214,651	32.23	1,389,332	51.37	(1)	(1)

¹ Not available.

³ Ibid, p. 196.

The scope and economic impact of military procurement is evident when so many large concerns are so dependent upon military contracts for their business. No attempt has been made here to list the thousands of subcontractors, suppliers, educational institutions, transportation companies, warehouses, and others who participate in varying degrees in military procurement contracts throughout the Nation.

COMPARATIVE STATISTICS

It is also meaningful in obtaining a picture of size to compare segments or splinters of the military supply management complex with parts of our industrial economy:

Procurement:	<i>Billion</i>
Total military procurement, fiscal year 1959-----	¹ \$22. 873
Compared to U.S. imports of merchandise, calendar year 1959----	² 15. 212
Compared to U.S. exports of merchandise, calendar year 1959----	² 17. 566
Inventory:	
Total military personal property in supply system—June 30, 1959--	³ 44. 467
Army-----	18. 612
Navy and Marine Corps-----	13. 535
Air Force-----	12. 320
<hr/>	
Compared to:	
Total manufacturing inventories—July 1960-----	⁴ 54. 88
Total retail inventories—July 1960-----	⁵ 25. 1
Excess, surplus, and long stocks of property:	
Disposal of surplus real and personal property by War Assets Administration Oct. 1944—June 30, 1949-----	24. 4
Average annual rate-----	5. 0
Surplus, excess, and long supply of personal property in DOD as of June 30, 1958-----	⁶ 26. 7
Estimate disposal program for 1960 and 1961 at acquisition cost--	⁷ 10. 0

¹ Staff report, p. 94, hearings, p. 48.

² Department of Commerce World Trade Information Service, pt. III, calendar year 1959.

³ House of Representatives Committee on Government Operations Report on Federal Real and Personal Property Inventory as of June 30, 1959, p. 132.

⁴ Industry survey, Department of Commerce, 1960.

⁵ Department of Commerce press release of Sept. 2, 1960.

⁶ Department of Defense Appropriations Committee hearings for fiscal 1960, pt. 5, p. 10.

⁷ Department of Defense appropriation hearings for 1961, pt. 4, p. 26, House of Representatives.

Summary of Department of Defense property holdings as of June 30, 1959

[Billions of dollars]

Land, buildings, fixed equipment.....	29
Construction in progress.....	3
Personal property.....	118
Total.....	150

From year to year, part of these annual expenditures keep adding to the size of our defense arsenals. As of December 1958, about 10 percent of our total national wealth was invested in the implements of warfare and in the facilities, supplies, and materials required to maintain our fighting forces. The tangible assets of the Department of Defense are estimated currently to be \$150 billion.⁴

Storage space:

DOD covered storage space, worldwide, June 30, 1959	
(square feet).....	^{1 2} 585, 329, 000
Cost of covered storage space.....	¹ \$2, 003, 395, 000
By comparison:	
The Pentagon has (space, square feet).....	3, 721, 000
The Commerce Department (square feet).....	1, 074, 500
South Agriculture Building (square feet).....	1, 311, 180
Executive Office building (square feet).....	314, 245

Supply items:

Items:	
In military supply system.....	3, 400, 000
In Sears, Roebuck catalog (estimate).....	100, 000

¹ Real and Personal Property Inventory Report, June 30, 1959, House Government Operations Committee, p. 86.

² 21 square miles.

Cost of supply management

It costs over \$2 billion a year for the supply systems to contract for, store, and issue the 3.4 million or more items in the military supply systems.⁵

Expenditures for Department of Defense military functions compared to gross national product

Expenditures for Department of Defense military functions as a percentage of gross national product, fiscal years 1939-59

[Billions of dollars]

Fiscal year	Gross national product	DOD military function		Fiscal year	Gross national product	DOD military function	
		Expenditures	Percent of GNP			Expenditures	Percent of GNP
			<i>Percent</i>				<i>Percent</i>
1939.....	91.1	1.2	1.3	1950.....	284.6	11.9	4.2
1940.....	100.6	1.6	1.5	1951.....	329.0	19.8	6.0
1941.....	125.8	6.1	4.8	1952.....	342.0	39.0	11.2
1942.....	159.1	23.6	14.8	1953.....	365.4	43.7	12.0
1943.....	192.5	63.1	32.8	1954.....	363.1	40.3	11.1
1944.....	211.4	76.1	36.0	1955.....	397.5	35.5	8.9
1945.....	213.6	79.9	37.4	1956.....	419.2	35.8	8.5
1946.....	210.7	42.0	19.9	1957.....	442.5	38.4	8.7
1947.....	234.3	13.8	5.9	1958.....	441.7	39.1	8.9
1948.....	259.4	11.1	4.3	1959 ¹	478.8	41.2	8.6
1949.....	258.1	12.0	4.6				

¹ Preliminary actual.

Sources:

1939-40: Advice of Department of Defense.

1941-59: Department of Defense, OSD Comptroller, EFAD-119, Oct. 13, 1959.

⁴ House Government Operations Committee Report on Federal Real and Personal Property as of June 30, 1959, p. 64.

⁵ Staff report, p. 21

Communications

A recent release by the Secretary of Defense (No. 541-60) dated May 12, 1960, announcing the establishment of a single communications system for certain communications activities in the Department of Defense, states:

The communications net does encompass 79 major relay stations scattered throughout the world, representing a plant investment of \$2 billion.

The combined annual message traffic handled by the three military systems which are to be integrated into a single communications system currently is in excess of 63 million messages per year. The systems of today involve 6.352 million channel miles of leased wires and 489,000 high quality long-range voice channels. To provide some idea of the magnitude of the traffic, the Air Force high frequency radio alone is 14 times greater than the RCA system, has three times as many people and handles 20 times as much traffic.

The military departments' communications systems employ approximately 24,700 personnel. Personnel will be assigned to the agency from existing resources of the military departments or other Department of Defense agencies to man the communications agency headquarters and traffic control centers.

The system does not include tactical communications which are self-contained within tactical organizations; self-contained information gathering, transmitting, and/or processing facilities which are normally local in operation and use; weapons systems requirements which cannot be met through the facilities of the DCS; and land, ship, or airborne terminal facilities or broadcast, ship-to-ship, ship-to-shore, and ground-air-ground systems.

Transportation

It is impossible to obtain complete statistics on the Government's overall transportation bill—by land, sea, and air.

The Defense Department gave these figures for fiscal year 1959:

(1) Total transportation bill:		
Air-----		\$435, 580, 000
Ocean-----		414, 000, 000
Service within the United States by:		
Highway-----		240, 000, 000
Railroad-----		177, 000, 000
Inland waterways-----		5, 000, 000
Total in rounded amounts-----		1, 271, 580, 000
(2) Transportation of passengers within the United States by all modes-----		110, 000, 000
Travel of passengers to and from overseas areas by ocean transport-----		72, 460, 000
Military Air Transport Service for passengers-----		82, 338, 000
(\$48,200,000 of this went to commercial air carriers. The remainder was used for MATS military airlift including troop carrier and domestic aeromedical evacuation.) ¹		
(3) Movement of privately owned vehicles to and from overseas areas-----		40, 000, 000

¹ Hearings, p. 536.

Movement of household goods

The Department of Defense reports that the fiscal 1959 cost of movement of household goods was approximately \$200 million worldwide. This figure includes packing, crating, and related costs. The total number of shipments of household goods within the United States by all modes of transportation was 584,400.⁶

Permanent changes of station

The following tables reflect the number of permanent changes of station compared with average strength and the cost by service:⁷

⁶ Hearings, p. 536.

⁷ H. Rept. 1561, p. 36, 86th Cong., 2d sess.

Number of permanent changes of station (excluding dependents)

Service	Actual fiscal year 1958	Actual fiscal year 1959	Planned fiscal year 1960	Estimate fiscal year 1961
Army:				
Average strength.....	(938, 100)	(885, 000)	(867, 901)	(868, 325)
Number of moves.....	1, 393, 624	1, 312, 838	1, 167, 427	1, 185, 982
Navy:				
Average strength.....	(649, 674)	(639, 070)	(613, 728)	(613, 255)
Number of moves.....	669, 427	577, 082	594, 145	575, 427
Marine Corps:				
Average strength.....	(193, 328)	(185, 434)	(174, 849)	(174, 646)
Number of moves.....	204, 177	219, 301	197, 999	155, 724
Air Force:				
Average strength.....	(891, 756)	(855, 060)	(830, 037)	(823, 451)
Number of moves.....	824, 134	709, 527	764, 172	719, 578
Total, Department of Defense:				
Average strength.....	(2, 672, 858)	(2, 564, 564)	(2, 486, 515)	(2, 479, 677)
Number of moves.....	3, 091, 362	2, 818, 748	2, 723, 743	2, 636, 711

¹ Excludes enlisted personnel paid travel allowance on reenlistment but who perform no travel.

Summary of permanent changes of station costs

Service	Actual fiscal year 1958	Actual fiscal year 1959	Planned fiscal year 1960	Estimate fiscal year 1961
Army.....	\$246, 281, 369	\$247, 086, 347	\$237, 431, 000	\$241, 010, 000
Navy.....	135, 755, 329	128, 543, 740	130, 000, 000	124, 400, 000
Marine Corps.....	32, 810, 028	39, 323, 000	37, 358, 000	33, 682, 000
Air Force.....	236, 883, 137	267, 128, 164	1 262, 806, 000	273, 091, 000
Total.....	651, 729, 863	682, 081, 251	667, 595, 000	672, 183, 000

¹ Excludes supplemental request for \$19,000,000 in H. Doc. 327 which was denied.

Impact upon industry

Defense witnesses stated that the annual cost of movement of military household goods in the continental United States was \$130 million for fiscal year 1959. This, incidentally, approximates the annual appropriation for the administration of the U.S. Forest Service which is responsible for the management of about 10 percent of the land area of continental United States or about 180 million acres.

While \$130 million is a relatively small figure compared to the total transportation costs of the Department of Defense—\$1.2 billion—yet this fragment of the whole is of the utmost importance to the thousands of household goods carriers in the United States. The allocation of this volume of business among the many van lines, large and small, is a matter of life or death.

This can best be illustrated by a recent event whereby the Department of Defense decided to amend its policy of awarding the household goods movement business to all carriers on a rotation basis and instead to award the business to four large van lines and their affiliates.⁸

The announced plan to change the policy caused a major storm and carriers from all over the United States complained directly and through their congressional representatives to the Department of Defense. Hundreds of letters and phone calls were sent to the Pentagon in protest and public hearings were held in the Pentagon and as a result, the application of the new policy was deferred.

⁸ Hearings, p. 537 ff.

This matter illustrates the severe impact upon an industry of a relatively small share of the military business. It also illustrates the economic impact of Pentagon decisions whether or not they are well-conceived and executed.

There is no implication in this report as to whether or not this particular facet of military supply management is being conducted in the best overall interests of our defense and our economy. It does illustrate that decisions which have such an impact upon the economy or segments thereof cannot be made as mere procurement transactions without full consideration being given to the economic and social aspects involved.

The distribution of this business is far too important to be lightly considered and awarded. Since there can be no doubt as to the impact of defense procurement, the question is, "how can it be done to obtain the best multiple results?"

Procurement officers wittingly or not are economic specialists who control the destinies of many unseen people as will be illustrated by the following table:

Distribution of defense spending by States

[In millions of dollars, for year ended June 30, 1959]

	Military spending for supplies, services and construction	Pay to military personnel	Pay to civilians	Total
Alabama.....	138	87	209	434
Alaska.....	(¹)	124	43	167
Arizona.....	239	84	39	362
Arkansas.....	16	42	20	78
California.....	5,283	757	780	6,820
Colorado.....	252	111	77	440
Connecticut.....	920	20	13	953
Delaware.....	74	30	8	112
District of Columbia.....	98	73	188	359
Florida.....	405	248	137	790
Georgia.....	271	259	180	710
Hawaii.....	(¹)	133	124	257
Idaho.....	9	20	4	33
Illinois.....	491	170	159	820
Indiana.....	389	31	60	480
Iowa.....	155	8	3	166
Kansas.....	450	135	35	620
Kentucky.....	39	156	66	261
Louisiana.....	151	90	38	279
Maine.....	117	54	10	181
Maryland.....	509	174	224	907
Massachusetts.....	1,150	143	139	1,432
Michigan.....	783	51	52	886
Minnesota.....	238	19	9	266
Mississippi.....	87	91	32	210
Missouri.....	571	111	81	763
Montana.....	28	25	4	57
Nebraska.....	63	61	23	147
Nevada.....	11	29	15	55
New Hampshire.....	41	36	49	126
New Jersey.....	919	158	142	1,219
New Mexico.....	73	95	61	229
New York.....	2,409	186	300	2,895
North Carolina.....	321	248	56	625
North Dakota.....	17	12	4	33
Ohio.....	1,031	79	211	1,321
Oklahoma.....	135	118	135	388
Oregon.....	31	19	20	70
Pennsylvania.....	684	57	376	1,117
Rhode Island.....	27	25	48	100

See footnote at end of table.

Distribution of defense spending by States—Continued

[In millions of dollars, for year ended June 30, 1959]

	Military spending for supplies, services and construction	Pay to military personnel	Pay to civilians	Total
South Carolina.....	38	182	78	298
South Dakota.....	12	29	8	49
Tennessee.....	106	71	43	220
Texas.....	1,305	630	315	2,250
Utah.....	175	13	95	283
Vermont.....	14	6	1	21
Virginia.....	293	307	428	1,028
Washington.....	961	185	142	1,288
West Virginia.....	20	2	6	28
Wisconsin.....	168	20	11	199
Wyoming.....	41	7	4	52
Total.....	21,760	5,800	5,304	32,800

¹ Not available.

NOTE.—Spending figures reflect prime-contract awards by States, and thus do not show the effect of subcontracting on actual distribution of defense work. Also excluded: value of work performed in arsenals and Navy yards; certain classified and other contracts totaling about \$2 billion.

Payroll figures exclude about 900,000 military personnel in naval fleets and other mobile units; construction works employed directly on military projects.

Basic data: U.S. Department of Defense.

General

In view of the great scope and impact of military supply functions on the economy and specific industries and sections of the economy, the citizens of the United States should know the quality of the performance of a job which is so important to defense, to our economy, and to many other programs which require financing from the tax dollar. Is performance meeting our objectives? This subject will be covered in the next section—Part II, the quality of military supply management.

PART II

QUALITY OF MILITARY SUPPLY MANAGEMENT

Part I of this report deals with the scope and economic impact of military supply management functions.

Part II will briefly cover the subject of the quality of military supply management. This subject has been a matter of grave concern to the Congress and to those who have studied it in detail during and since World War II on account of its impact upon resources, budgets, the debt, the national economy and specific segments thereof.

STUDIES AND REPORTS

In recent years the quality of the military supply management functions has been covered by a number of studies and reports:

The second Hoover Commission identified the principal supply deficiencies in the Department of Defense in the following areas:¹

Inadequate integration in requirements

Lack of uniformity in requirements planning factors, including operating levels, mobilization reserves, and economic retention reserves.

Uncoordinated phasing of procurements of identical items which prevents maximum consolidation of quantities.

Incomplete standardization of specifications for items to perform the same function.

Inadequate integration in use of assets

Duplication in inventories and pipelines.

Inadequate interchange of assets to minimize total stocks and prevent concurrent buying and selling.

Inadequate coordination in planning distribution of stocks to minimize transportation and handling expense, avoid crosshauls, backhauls, etc.

Inadequate integration in use of facilities

Excess depot facilities over those required by consolidated stockage.

Duplicate overhead charges resulting from separate purchasing and supply offices.

Inadequate integration in management

Multiple managers of common-use supplies and services.

Incomplete standardization of procedures and documents.

Insufficient followup by Department of Defense on uniform practices prescribed in directives and instructions.

¹ See Commission on Organization of the Executive Branch of the Government Department of Defense, logistics systems study project summary, pp. 1-6.

As a solution to these deficiencies, the Hoover Commission recommended that Congress enact legislation establishing a separate civilian managed agency reporting to the Secretary of Defense to administer supply and service activities that are common to two or more services.²

These conclusions were much the same as those of the first Hoover Commission, the Bonner subcommittee in 1951-52, and the Dawson subcommittee in 1956.³

The Department of Defense did not concur in this recommendation but instituted a number of what it considered to be important improvements in its supply operations that would enhance efficiency and eliminate unnecessary duplication without creating a new agency.

GENERAL ACCOUNTING OFFICE REPORTS

During the past 2 years, the General Accounting Office, which is in the legislative branch of the Government, has made at least 100 detailed audit reports involving supply and service management activities in the Department of Defense. The examinations are made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), the Accounting and Auditing Act of 1950 (31 U.S.C. 67), and the authority of the Comptroller General to examine contractors' records, as set forth in 10 U.S.C. 2313(b).

Synopses of many of these reports are included in the hearings⁴ and staff report of this subcommittee⁵ and will not be repeated here. In essence, these reports reveal an alarming degree of waste and inefficiency in practically every facet of supply management from requirements determination to disposal. They reveal, furthermore, that untold sums of money and other vast resources can be saved through more effective supply management in the military agencies.

TESTIMONY OF COMPTROLLER GENERAL OF THE UNITED STATES

On January 28, 1960, Comptroller General Campbell testified before the Special Subcommittee on Defense Procurement. His testimony covered 4 general activity classifications.

In the area of procurement the Comptroller General indicated a number of uneconomic practices such as:

Failure to negotiate close prices

In 16 cases reported to the Congress, excessive costs aggregated about \$27.8 million. 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.

² Commission on Organization of the Executive Branch of the Government, "Report on Business Organization of Department of Defense," p. 45.

³ H. Rept. 658, 82d Cong., 1st sess. Federal supply management (military and related activities), June 27, 1951.

⁴ H. Rept. 1994, 82d Cong., 2d sess. Federal supply management (oversea survey), May 23, 1952.

⁵ H. Rept. 2330, 82d Cong., 2d sess. Alameda medical supply test (Federal supply management), June 27, 1952.

⁶ H. Rept. 2013, Commission on Organization of the Executive Branch of the Government (food and clothing report) (depot utilization report), Apr. 18, 1956.

⁴ Hearings, pp. 2-30, 450-467.

⁵ Staff report, pp. 165-198.

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

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 expenses.

Other uneconomical procurement practices

Failure to adjust contract prices for changes in the scope of contract work has resulted in excess charges to the Government.

Instances where the cost of Government procurement has been unnecessarily increased as a result of requiring contractors to carry insurance on Government-owned property.

Need for improvement in the interservice supply support program

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.

Need for improved supply management controls

Procedures are inadequate to determine stock position or compute their requirements within a reasonable degree of accuracy.

The critical testimony of the Comptroller General of the United States before the special subcommittee⁶ and the continuous stream of reports from the General Accounting Office reflected against 6.7 million "procurement actions to buy material at an annual expenditure of \$23.9 billion"⁷ prompted Chairman Douglas to inquire as to the degree of the sampling of contracts for GAO audit purposes:

The CHAIRMAN. 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.⁸

The General Accounting Office reports and the testimony of the Comptroller General of the United States confirm the criticism of the Second Hoover Commission as to deficiencies in the DOD supply and service systems as stated above.

⁶ Hearings, pp. 2-30.

⁷ Staff report, p. 3.

⁸ Hearings, pp. 21-22.

While most of the GAO reports deal with individual contracts, installations, and supply problems, two of the most recent deal with broader aspects of the supply management systems themselves. They are entitled:

“Initial Report on Review of Administrative Management of the Ballistic Missile Program of the Department of the Air Force” (Report B-133042 of May 19, 1960), and

“Review of Supply Management of Electronic Supplies and Equipment within the Department of Defense” (Report B-133313 of May 31, 1960).

The essence of the B-133042 Report is that the Department of the Air Force has, by contract, delegated important governmental functions to a private contractor who in turn is working for the Government. The Comptroller General of the United States makes this significant statement:

We believe that a program of this importance should be conducted under the direct leadership and responsibility of the Government agency to which it is entrusted. Furthermore, a function which so significantly affects a major segment of our industry more appropriately should be performed by a Government agency rather than by a contractor, particularly when the program is continuing in nature.

The Comptroller General also states:

Our review was seriously handicapped by denial of access to certain essential records and delays in making other records available to us. This matter is discussed in detail beginning on page 107 of the report.

The Comptroller General while pointing up the fact that the Department of the Air Force has delegated basic duties and responsibilities and has, in fact, created “government by contract” does not raise the question as to why the Air Force pursuant to the intent of the National Security Act of 1947, as amended, does not have its engineering, electronic work, etc., done by the Army Engineers or the Signal Corps or the Navy’s Bureau of Yards and Docks.

The hearings on the original National Security Act of 1947 are clear⁹ that it was not the intent of the Congress or the proponents of the new Department of the Air Force to establish separate supply and service agencies for the new Department. The Eisenhower-Spaatz agreements which were intended to implement the National Security Act also contemplated that separate supply and service agencies would not be established by the new Department of the Air Force.

The Report B-133313 of the Comptroller General on Electronic Supplies and Equipment covers the supply management of electronic supplies and equipment within the Department of Defense. This report deals with some 900,000 separate electronic/electrical items included in the various supply systems of the military departments.¹⁰

The Comptroller General’s letter dated May 31, 1960, transmitting the Report B-133313, states:

Our review disclosed that inadequate coordination of electronics supply management activities among and between the military departments is resulting in significant additional costs to the Government and is adversely affecting the efficiency and effectiveness of supply operations. Unnecessary purchases and inadequate supply support are resulting from the failure to consider and obtain needed items available and in long supply in other services; excessive costs

⁹ H. Rept. 1994, 82d Cong., 2d sess., May 23, 1952, pp. 29 ff.

¹⁰ See H. Rept. 2042, 86th Cong., 2d sess. (Military Supply Management) (Progress in Single Management), June 30, 1960, pp. 11 et seq.

and inefficient supply support are resulting from the failure to coordinate the various repair and overhaul activities of each service; and there is a costly duplication and overlap of electronic supply management functions and organizations.

We also found that unnecessary administrative costs are being incurred because there are six independent organizations performing the same or similar stock-management functions.

The existence of these deficiencies indicates that present efforts by the Department of Defense to coordinate electronic supply activities of the individual military services are inadequate. Accordingly, we are recommending to the Secretary of Defense that consideration be given to assigning the management of electronic supplies to an organization within the Department of Defense that will be given the necessary authority and responsibility to centrally manage all electronic equipment and supplies.

NEED FOR IMPROVED ORGANIZATION

It is significant that this report deals with the necessity for better organization among the numerous military units who handle these common items of supply.

The report confirms a basic management principle that cooperation, coordination, collaboration, cross servicing, etc., are very worthy and necessary attributes, but they are not substitutes for the best possible organization. They should come after organization and not be considered as a substitute for it.

DOD REPORT ON MANAGEMENT OF GENERAL SUPPLIES ¹¹

Since there is an inclination on the part of military people to look askance at studies and reports made by congressional committees, the Hoover Commissions and other nonmilitary agencies, it is noteworthy that one of the most important, detailed, and constructive reports dealing with military supply management in many years was issued and approved by the Department of Defense itself. This is the "Report on Management of General Supplies" based on a study of the supply systems of the four military services and GSA.

The study took about 7 months' time for completion and utilized the services of nine top-flight military and civilian personnel. It is in seven parts as follows:

	<i>Page</i>
Vol. I: Executive Brief-----	35
Vol. II: AFSSC Analyses, Conclusions, and Recommendations-----	164
Vol. III: Management of Selected General Supplies (GSSM):	
Pt. 1.—Department of the Army-----	361
Pt. 2.—Department of the Navy-----	305
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The final report was approved by the Armed Forces Supply Support Council (AFSSC), the Assistant Secretary of Defense (S. & L.) and the Materiel Secretaries of the military departments.

The report is based upon a study of approximately 75,000 common-use items from a total of 2,310,000 common items in the military supply services. The 2,310,000 common-type items compromise about 70 percent of the approximate 3.4 million items in the military supply services. The report shows that a conservative estimate of the in-

¹¹ Armed Forces Supply Support Center Study Project 59-2, September 1959.

ventory value of the items studied (75,000) is \$349.4 million divided between the services as follows:

	<i>Million</i>
Army-----	\$158.0
Navy-----	107.9
Air Force-----	52.0
Marine Corps-----	31.5
Total-----	349.4

The report is discussed in detail in the staff report¹² and hearings¹³ so the main points, only, will be outlined here (app. 2):

The report shows:

1. That these items (75,000) were in long supply by \$101.38 million or 34 percent overall. The long supply varied from 22 percent in the Army to 72 percent in the Marine Corps.

2. That the failure to make maximum use of all available resources in the DOD leads to inaccurate requirements determination and that synchronization of the requirements for the 75,000 items reviewed and full coordinated procurement will only occur under consolidated management.

3. That progress toward standardization of some 1.3 million items has been limited due to the low priority assigned and the absence of a vigorous program among the military services to implement existing standards. Yet this acute need which will save hundreds of millions of dollars annually has been recognized for many years.

4. That there are wide differences in the materiel distribution systems of each military service. For example, there are differences in distribution patterns, levels, status reporting, priority processing, supply management codes, selective management techniques, oversea control of stocks, compilation of supply effectiveness, and positioning of mobilization reserves.

5. That "From a DOD overview, overlap of distribution patterns and materiel in store as well as—backhaul of (these 75,000 items) exist."

6. That the actual utilization of reportable DOD excess property is relatively small. This is confirmed by a recent report of the Budget Bureau which shows that Federal agencies do not as a general rule utilize excess property that is available to them.¹⁴

7. That "consolidated management would directly and immediately achieve maximum utilization of inventory control points resources as well as base level resources through the immediate matching of total available assets to computed requirements."

8. That there is a wide diversity and lack of policy in the utilization of stock funds in the four military services. The use of the stock fund ranges from 3.8 percent in the Air Force to approximately 93 percent in the other three services.

GENERAL CONCLUSIONS FROM REPORT

There is need for improvement in the management of general supplies across military service lines. Economies can be achieved most effectively through consolidating supply management.

It is in the distribution systems of the four military services that the greatest economies can be realized through consolidated management of general supplies.

¹² Staff report, pp. 51-58.

¹³ Hearings, pp. 160-182.

¹⁴ Congressional Record, July 1, 1960, pp. 12231 ff.

It should be noted that these general conclusions endorse the intent of the O'Mahoney amendment¹⁵ which has been permanent law since 1952 and the McCormack-Curtis amendment¹⁶ which was enacted in 1958.

For additional conclusions see appendix IV, "Report on Management of General Supplies," vol. II: Analyses, Conclusions, and Recommendations.¹⁷

This important report made by the DOD itself and approved top-side is a serious indictment of the management of a group of some 75,000 common-type items used in the four services, from requirements determination through the gamut of supply management activities. It is fair to assume that the mismanagement of these 75,000 items valued at only \$349.4 million typifies the general situation with regard to the 2.3 million common-type items of the 3.4 million or more items in the supply systems which have now been cataloged and which are valued in the tens of billions of dollars.

METHODS OF CONTRACTING

Insight into the quality of the military supply management activities would be incomplete without consideration of the manner or methods employed in procuring from \$22 to \$25 billion worth of supplies and equipment annually.

COMPETITIVE VERSUS NEGOTIATED BIDS

The Federal Government and most State and local governments have, through the years, found it desirable and necessary to make procurements with the taxpayers' money pursuant to formal, written bid procedures wherever possible. The Federal Government over a period of a century or more developed what has become known as Revised Statute 3709 which has as its purpose, as stated by the Comptroller General of the United States in 34 C.G. 551:

The courts and accounting officers of the Government have frequently and consistently held that section 3709, Revised Statutes, was designed to give all persons equal right to compete for Government business, to secure to the Government the benefits which flow from competition, to prevent unjust favoritism by representatives of the Government in making purchases for public account, and to prevent collusion and fraud in procuring supplies or letting contracts. (See app. 3 for background on competitive bid law R.S. 3709.)

Genuine written bids are objective in nature and if properly executed and strengthened by suitable antitrust law action permit the free forces of competition to play and the Government is benefited from the competition between bidders who have available to them engineers, scientists, accountants, former Government officers and employees and other technical experts, and the know-how which inevitably develops through the experience of contracting.

The many abuses such as favoritism, collusion, and nepotism that attend subjective (negotiated) procurement can best be reduced by the objective competitive procurement methods. When taxpayers' money is expended the transactions must not only be good but they must look good and this cannot be accomplished under negotiated contracting where the goldfish bowl technique is not used.

¹⁵ See p. 64.

¹⁶ See p. 72.

¹⁷ See also staff report, pp. 56-58.

NEGOTIATED PROCUREMENT

Armed Services Procurement Act of 1947 (Public Law 413, 80th Cong., 2d sess.)

The experiences in World War II prompted well-intentioned individuals to advocate the establishment of what is essentially permanent war powers authority for future procurements. The bill H.R. 1366, which finally passed the Congress in February 19, 1948, permitted the five agencies named therein—Army, Navy, Air Force, Coast Guard, NACA—to negotiate contracts in certain cases.

However, the intent of the act was that negotiation was to be the exception and not the rule. Section 2(c) of the act provides:

(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 exemptions are listed].

When President Truman signed the act he admonished the agencies to use negotiating authority sparingly and predicted that improper use of the authority “will lead to excessive placement of contracts by negotiation and an undue reliance upon large concerns, and this must not occur” (full text of letter in app. 4).

EXCEPTION BECOMES THE RULE

Despite the intent of the law and the President’s admonition, the great majority of military purchases are made by negotiated contracts at the present time.

The Comptroller General of the United States advised Congress:

The volume of purchasing under contracts by the military departments now amounts to about \$25 billion annually and represents about 35 percent of the total Federal budget. The complexities of so large a program are without parallel and affect almost all Government agencies and a vast number of business concerns, large and small, in the country. It has a pronounced effect upon the entire economy of our country. Government and industry alike, as buyers, sellers, and taxpayers, have a vital stake in seeking the most effective policies and practices by which this tremendous procurement can be accomplished.

It has been estimated that as much as 80 to 90 percent, by value, of all military purchases are made by negotiated contracts. Prices under negotiated contracts are established to a large extent on the basis of the contractor’s actual or estimated cost of production rather than on the basis of competitive bids. Therefore, evaluation of the reasonableness of prices requires a knowledge and thorough analysis of the various cost elements from the standpoint of the conditions and circumstances present at the time of the award. Effective negotiation requires that both Government and industry have a full understanding of all pertinent factors.¹⁸

The Attorney General of the United States also reports:

From July 1, 1950, to June 30, 1959, there were armed services “procurement actions” totaling some 38,007,000 separate transactions with dollar value of \$228.4 billion. Some of these were actions in foreign areas or involving intra-governmental dealing, not directly affecting the status of U.S. firms. The dollar value of the more than 31,300,000 procurement actions involving orders placed with companies in the United States over the same period totaled some \$208 billion.¹⁹

For the period fiscal years 1951–59 from a total of \$207.959 billion military procurement actions, \$180.156 billion was by negotiated procurement, or 86.6 percent of the total.²⁰

¹⁸ Annual Report of Comptroller General of the United States, 1958, pp. 80–81.

¹⁹ Report of Attorney General pursuant to sec. 708(e) of the Defense Production Act, as amended, dated Nov. 9, 1959, p. 56.

²⁰ Staff report, p. 86.

Net value of military procurement actions with business firms for work in the United States, classified by method of procurement, fiscal years 1951-59

Fiscal year	Total net value (millions)	Formally advertised procurement		Negotiated procurement	
		Millions	Percent	Millions	Percent
1951.....	\$30,823	\$3,720	12.1	\$27,103	87.9
1952.....	41,482	4,479	10.8	37,003	89.2
1953.....	27,822	3,089	11.1	24,733	88.9
1954.....	11,448	1,789	15.6	9,659	84.4
1955.....	14,930	2,386	16.0	12,544	84.0
1956.....	17,750	2,815	15.9	14,935	84.1
1957.....	19,133	3,321	17.4	15,812	82.6
1958.....	21,827	3,115	14.3	18,712	85.7
1959.....	22,744	3,089	13.6	19,655	86.4
Total, 1951-59.....	207,959	27,803	13.4	180,156	86.6

Source: 1951-58: Department of Defense, "Military Prime Contract Awards to Small Business and Other Contractors, July 1957-June 1958," at 24, 27; 1959: "Advice of the Department of Defense."

COST-REIMBURSEMENT-TYPE NEGOTIATED CONTRACTS ^{20a}

During the period fiscal years 1951-59 the volume of riskless cost-reimbursement-type contracts increased in volume from 12.7 to 40.9 percent while the fixed-price-type contracts dropped from 87.3 to 59.1 percent as shown by the following table: ²¹

Net value of military procurement actions, by type of contract pricing provision,¹ fiscal years, 1951-59

Fiscal year	Total net value of actions	Type of contract			
		Fixed price		Cost reimbursement	
		Dollars	Percent of total	Dollars	Percent of total
	<i>Millions</i>	<i>Millions</i>		<i>Millions</i>	
1951.....	\$21,458	18,736	87.3	2,722	12.7
1952.....	34,028	27,954	82.1	6,074	17.9
1953.....	29,285	23,358	79.8	5,927	20.2
1954.....	10,942	7,708	70.4	3,234	29.6
1955.....	13,661	10,366	75.9	3,295	24.1
1956.....	16,102	11,221	69.7	4,881	30.3
1957.....	17,997	11,995	66.6	6,002	33.4
1958.....	22,162	13,389	60.4	8,773	39.6
1959.....	22,873	13,520	59.1	9,353	40.9

¹ Includes Army, Navy, and Air Force, but excludes Armed Services Petroleum Purchasing Agency. Beginning Jan. 1, 1957, data for the Military Petroleum Supply Agency, the successor to ASPPA, are included with the Navy figures. Includes overseas procurement except for Army prior to fiscal year 1958. Excludes intragovernmental procurement. Excludes procurement actions less than \$10,000 in value except in fiscal year 1951; for fiscal year 1951 the exclusions are: Army, less than \$100,000; Air Force, less than \$10,000, and Navy, less than \$5,000. Also excludes some Navy letters of intent (on which pricing provisions had not been determined) during fiscal years 1951 and 1952.

Source: Department of Defense, Office of the Secretary of Defense, Sept. 23, 1959.

^{20a} Representative CURTIS. The Ways and Means Committee has jurisdiction of this subject in the House and over a period of years has held many hearings on its adequacy. In my judgment the Renegotiation Act, which sets up the Renegotiation Board, actually helps defeat the very objectives it seeks to attain. If proper emphasis, as indicated in this report, were placed upon better contracting methods under qualified staff and adequate procedures, then the after-the-fact renegotiation by those less familiar with the facts than the original contracting officers would not be necessary.

It is my firm belief that great economies can be attained by constructive contracting methods in the first instance. This will eliminate unnecessary postreview, burdensome paperwork to all parties concerned, delay in final settlement and ultimate cost. It will also produce timely cost figures for current and future contracts and eliminate many bad practices induced by the negotiation process. My views on this subject were discussed at length on April 27, 1959, at a House Ways and Means Committee hearing on the extension of the Renegotiation Act, and also my speech on the floor of the House on May 26, 1959 (see Congressional Record, pp. 8234-8240).

²¹ Staff report, p. 93.

KNOW-HOW AND PATENT RIGHTS

One of the difficulties with negotiated contracting, particularly the cost-reimbursement type and with research and development work at Government expense, is that the know-how which is paid for by the taxpayer and which should be public domain for the benefit of everyone and under the Government's control, is actually controlled by the contractor.

It is thus difficult for the Government to know what has been developed at its expense and to make the know-how available in connection with later contracts. Obviously public domain in one form or another belongs to all the people. A uniform patent policy recognizing these points should be developed which will be controlling on all Government agencies.

CONTRACTING WITH LARGE CORPORATIONS

There has been a constant upward trend in the placement of military procurement with the large contractors. For the period July 1, 1958, to June 30, 1959, 100 companies and their subsidiaries received \$16.681 billion of the total contracts of \$22.592 billion, or 73.8 percent.²²

The 10 largest companies—General Dynamics Corp., Boeing Airplane Co., North American Aviation, Inc., General Electric Co., Lockheed Aircraft Corp., Douglas Aircraft Co., United Aircraft Corp., Martin Co., Hughes Aircraft Co., American Telephone & Telegraph Co.—received \$476.5 million or 37 percent of the total.

One hundred companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
	U.S. total ¹	\$22,591.8	100.0	100.0
	Total, 100 companies and their subsidiaries ²	16,681.3	73.8	73.8
1	General Dynamics Corp.....	1,616.3	7.2	
	Electronic Control Systems, Inc.....	.1	(?)	
	Total.....	1,616.4	7.2	7.2
2	Boeing Airplane Co.....	1,166.5	5.2	12.4
3	North American Aviation, Inc.....	1,015.5	4.5	
	Astrodyne, Inc. ⁴	2.6	(?)	
	Total.....	1,018.1	4.5	16.9
4	General Electric Co.....	913.8	4.1	
	International General Electric Co., Inc. (Puerto Rico).....	.2	(?)	
	Total.....	914.0	4.1	21.0
5	Lockheed Aircraft Corp.....	862.2	3.9	
	Lockheed Aircraft Service, Inc.....	28.1	.1	
	Lockheed Aircraft Service International, Inc.....	8.7	(?)	
	Lockheed Aircraft Service Overseas, Inc.....	-1.5	(?)	
	Lockheed Air Terminal, Inc.....	1.0	(?)	
	Total.....	898.5	4.0	25.0

See footnotes at end of table.

²² Staff report, pp. 26-31.

One hundred companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
6	Douglas Aircraft Co.....	\$676.4	3.0	28.0
7	United Aircraft Corp.....	538.1	2.4	
	United Aircraft Service Corp.....	.1	(³)	
	Total.....	538.2	2.4	30.4
8	Martin Co.....	524.0	2.3	32.7
9	Hughes Aircraft Co.....	494.0	2.2	34.9
	Total.....	476.5	2.1	37.0
10	American Telephone & Telegraph Co.....	.6	(³)	
	Teletype Corp.....	13.4	(³)	
	Western Electric Co.....	462.5	2.1	
	Total.....	476.5	2.1	37.0
11	McDonnell Aircraft Corp.....	403.5	1.8	38.8
12	Sperry Rand Corp.....	383.6	1.7	
	Vickers, Inc.....	19.6	.1	
	Wheeler Electronic Corp.....	(⁴)	(⁴)	
	Total.....	403.2	1.8	40.6
13	Raytheon Manufacturing Co.....	392.6	1.7	42.3
14	Chrysler Corp.....	320.9	1.4	
	Chrysler Airtemp Sales Corp.....	2.3	(⁵)	
	Total.....	323.2	1.4	43.7
15	Grumman Aircraft Engineering Corp.....	300.1	1.3	
	Dynamic Developments, Inc.....	.1	(⁶)	
	Total.....	300.2	1.3	45.0
16	Republic Aviation Corp.....	280.5	1.2	46.2
17	International Business Machines Corp.....	276.6	1.2	
	Service Bureau Corp.....	.3	(⁷)	
	Total.....	276.9	1.2	47.4
18	Bendix Aviation Corp.....	270.9	1.2	
	Bendix-Westinghouse Automotive Air Brake Co.....	.3	(⁸)	
	Sheffield Corp.....	.1	(⁸)	
	Total.....	271.3	1.2	48.6
19	Westinghouse Electric Corp.....	237.9	1.1	
	Westinghouse Electric Supply Co.....	.1	(⁹)	
	Total.....	238.0	1.1	49.7
20	General Motors Corp.....	210.3	.9	
	Ethyl Corp. ⁶.....	.3	(⁹)	
	Frigidaire Sales Corp.....	.1	(⁹)	
	Total.....	210.7	.9	50.6
21	General Tire & Rubber Co.....	12.1	.1	
	Aerojet General Corp.....	193.9	.8	
	Byers (A. M.) Co.....	.8	(⁹)	
	RKO Teleradio Pictures, Inc.....	(⁹)	(⁹)	
	Total.....	206.8	.9	51.5
22	Radio Corp. of America.....	199.7	.9	52.4
23	Avco Corp.....	183.7	.8	53.2
24	Standard Oil Co. (New Jersey).....	10.6	.1	
	Carter Oil Co.....	(⁹)	(⁹)	
	Enjay Co., Inc.....	98.0	.5	
	Esso Export Corp.....	1.3	(⁹)	
	Esso Research & Engineering Co.....	49.3	.2	
	Esso Standard Oil Co.....	(⁹)	(⁹)	
	Esso Standard Oil Co (Puerto Rico).....	.2	(⁹)	
	Ethyl Corp. ⁶.....	.1	(⁹)	
	Gilbert & Barker Manufacturing Co.....	7.6	(⁹)	
	Humble Oil & Refining Co.....	2.0	(⁹)	
	Penola Oil Co.....	2.6	(⁹)	
	Standard Vacuum Oil Co. ⁷			
	Total.....	171.7	.8	54.0

See footnotes at end of table.

One hundred companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
25	Northrop	\$140.2	0.6	
	Page Communications Engineers, Inc	4.8	(³)	
	Total	145.0	.6	54.6
26	International Telephone & Telegraph Co.	68.9	.3	
	Federal Electric Corp	68.8	.3	
	Intelix Systems, Inc .....	.2	(³)	
	Kuthe Laboratories, Inc	1.1	(³)	
	Mackay Radio & Telegraph Co	(³)	(³)	
	Royal Electric Corp .....	.1	(³)	
Total	139.1	.6	55.2	
27	Bethlehem Steel Corp			
	Bethlehem Pacific Coast Steel Corp	10.0	.1	
	Bethlehem Sparrows Point Shipyards, Inc. ....	.4	(³)	
	Bethlehem Steel Co	113.5	.5	
	Bethlehem Steel Export Co .....	.1	(³)	
Total	124.0	.6	55.8	
28	Standard Oil Co. of California	69.9	.3	
	American Bitumuls & Asphalt Co .....	.1	(³)	
	California Co .....	.1	(³)	
	California Oil Co	3.8	(³)	
	California Spray Chemical Co	(³)	(³)	
	California Tanker Co	(³)	(³)	
	Caltex Oil Products Co. ¹	40.2	.2	
	Overseas Tankship Corp. ² .....	.8	(³)	
	Standard Oil Co. of Texas	8.8	(³)	
Total	123.1	.5	56.3	
29	Burroughs Corp	116.8	.5	
	Control Instrument Co	4.1	(³)	
	Total	120.9	.5	56.8
30	Collins Radio Co	114.9	.5	
	Communications Accessories, Inc	(³)	(³)	
	Total	114.9	.5	57.3
31	Merritt-Chapman & Scott Corp	2.9	(³)	
	Devoe & Reynolds Co., Inc. ....	.1	(³)	
	New York Shipbuilding Corp	102.7	.5	
	Total	105.7	.5	57.8
32	Minneapolis-Honeywell Regulator Co.	104.5	.5	
	Marion Electrical Instrument Co .....	.1	(³)	
	Total	104.6	.5	58.3
33	Thompson Ramo Wooldridge, Inc	58.9	.3	
	Bell Sound Systems, Inc	(³)	(³)	
	Space Technology Laboratories, Inc	43.6	.2	
	Total	102.5	.5	58.8
34	Thiokol Chemical Corp	101.7	.5	
	Hunter-Bristol Corp	(³)	(³)	
	National Electronics Laboratories, Inc	(³)	(³)	
	Total	101.7	.5	59.3
35	American Bosch Arma Corp	101.5	.5	59.8
	Newport News Shipbuilding & Dry Dock Co.	98.7	.4	60.2
37	Philco Corp	95.6	.4	
	Lansdale Tube Co .....	.2	(³)	
	Sierra Electronics Co .....	.1	(³)	
	Total	95.9	.4	60.6
38	Goodyear Tire & Rubber Co	24.2	.1	
	Goodyear Aircraft Corp	63.5	.3	
	Goodyear Engineering Corp	2.6	(³)	
	Total	90.3	.4	61.0

See footnotes at end of table.

One hundred companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
39	Ford Motor Co.....	\$79.3	0.4	
	Aeronutronic Systems, Inc.....	10.1	(3)	
	Total.....	89.4	.4	61.4
40	Massachusetts Institute of Technology.....	89.0	.4	61.8
	Bath Iron Works Corp.....	84.9	.4	62.2
42	Pan-American World Airways, Inc.....	80.1	.4	62.6
43	Texas Co. (The).....	34.2	.2	
	Caltex Oil Products Co. ⁹	40.2	.2	
	Overseas Tankship Corp. ⁹.....	.2	(3)	
	Texaco Brazil, Inc.....	.1	(2)	
	Texas Co. (Puerto Rico), Inc.....	.2	(2)	
	Texas Petroleum Co.....	4.7	(2)	
	Total.....	79.6	.4	63.0
44	Continental Motors Corp.....	31.7	.2	
	Continental Aviation & Engineering Corp.....	47.5	.2	
	Gray Marine Motor Co.....	.1	(3)	
	Wisconsin Motor Corp.....	(1)	(3)	
	Total.....	79.3	.4	63.4
45	Brown-Raymond-Walsh ⁹	78.3	.4	63.8
46	Garrett Corp.....	76.9	.3	64.1
47	General Precision Equipment Corp.....	0	0	
	CPE Controls, Inc.....	.1	(3)	
	General Precision Laboratory, Inc.....	6.7	(3)	
	Grayflex, Inc.....	.7	(3)	
	Griscum-Russell Co.....	.1	(3)	
	Hertner Electric Co.....	.1	(3)	
	Kearfott Co., Inc.....	13.0	(2)	
	Librascope, Inc.....	37.0	.2	
	Link Aviation, Inc.....	14.9	.1	
	Strong Electric Corp.....	.1	(3)	
	Total.....	72.7	.3	64.4
48	Marquardt Aircraft Co.....	71.4	.3	
	Cooper Development Corp.....	1.0	(3)	
	Total.....	72.4	.3	64.7
49	Socony Mobil Oil Co.....	19.1	.1	
	General Petroleum Corp.....	15.8	.1	
	Magnolia Petroleum Co.....	6.7	(3)	
	Mobil Overseas Oil Co., Inc.....	27.7	.1	
	Standard Vacuum Oil Co. ⁷	2.6	(2)	
	Total.....	71.9	.3	65.0
50	Shell Caribbean Petroleum Co.....	43.3	.2	
	International Lubricant Corp.....	.5	(2)	
	Shell Chemical Corp.....	1.1	(2)	
	Shell Development Co.....	.5	(2)	
	Shell Oil Co.....	25.0	.1	
Total.....	70.4	.3	65.3	
51	Morrison-Knudsen-Hardeman-Drake-Olson-Young ¹⁰	67.6	.3	65.6
	Olin Mathieson Chemical Corp.....	64.9	.3	
52	Liberty Powder Co.....	1.6	(2)	
	Liberty Powder Defense Corp.....	.5	(2)	
	Total.....	67.0	.3	65.9
53	Curtiss-Wright Corp.....	66.9	.3	66.2
54	Hoffman Electronics Corp.....	57.7	.3	66.5
55	Bell Aircraft Corp.....	26.2	.1	
	Bell Helicopter Corp.....	29.6	.2	
	Hydraulic Research Manufacturing Co.....	.5	(2)	
	Wheelabrator Corp.....	.1	(2)	
	Total.....	56.4	.3	66.8
56	Hercules Powder Co.....	55.2	.2	67.0

See footnotes at end of table.

One hundred companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
57	Cities Service Co.....	\$0.1	(3)	
	Arkansas Fuel Oil Corp.....	.7	(2)	
	Cities Service Gas Co.....	.2	(3)	
	Cities Service Oil Co.....	53.0		0.2
	Orange State Oil Co.....	(5)	(2)	
	Total.....	54.0	.2	67.2
58	Food Machinery & Chemical Corp.....	53.6	.2	67.4
59	Ryan Aeronautical Co.....	51.1	.2	67.6
60	Ingalls Iron Works Co.....	0	0	
	Ingalls Shipbuilding Corp.....	49.9	.2	
	Ingalls Taiwan Shipbuilding Corp.....	.2	(3)	
	Total.....	50.1	.2	67.8
61	Hayes Aircraft Corp.....	48.6	.2	68.0
62	International Harvester Co.....	44.0	.2	
	Hough (Frank G.) Co.....	2.2	(3)	
	Total.....	46.2	.2	68.2
63	Union Oil Co. of California.....	45.8	.2	68.4
64	Laboratory for Electronics, Inc.....	45.4	.2	68.6
65	General Telephone & Electronics Corp.....	0	0	
	Automatic Electric Sales Co.....	.9	(3)	
	Sylvania Electric Products, Inc.....	43.4	.2	
	Total.....	44.3	.2	68.8
66	Oman-Farnsworth-Wright ".....	44.1	.2	69.0
67	Westinghouse Air Brake Co.....	.6	(3)	
	Le Tourneau-Westinghouse Co.....	3.5	(2)	
	Melpar, Inc.....	37.4	.2	
	Union Switch & Signal Construction Co.....	(3)	(3)	
	Total.....	41.5	.2	69.2
68	Fairchild Engine & Airplane Corp.....	41.2	.2	69.4
69	Kiewit (Peter) Sons Co.....	41.2	.2	69.6
70	Tidewater Oil Co.....	39.5	.2	
	Seaside Oil Co.....	.4	(3)	
	Total.....	39.9	.2	69.8
71	Temco Aircraft Corp.....	39.3	.2	
	Fenske Fedrick & Miller, Inc.....	.5	(3)	
	Total.....	39.8	.2	70.0
72	Firestone Tire & Rubber Co.....	39.5	.2	70.2
73	Northern Pump Co.....	0		
	Northern Ordnance, Inc.....	38.0	.2	
	Total.....	38.0	.2	70.4
74	U.S. Rubber Co.....	36.0	.2	70.6
75	Continental Oil Co.....	35.7	.2	70.8
76	States Marine Corp.....	23.0	.2	
	States Marine Corp. (Delaware).....	5.9	(3)	
	Isthmian Lines.....	6.7	(3)	
	Total.....	35.6	.2	71.0
77	Todd Shipyards Corp.....	35.5	.2	71.2
78	Lear, Inc.....	35.3	.2	71.4
79	Standard Coil Products Co., Inc.....	(5)	(3)	
	Kollsman Instrument Corp.....	35.3	.2	
	Total.....	35.3	.2	71.6
80	Gulf Oil Corp.....	28.6	.2	
	Callery Chemical Co.....	6.5	(3)	
	Gulf Research & Development Co.....	.1	(2)	
	Total.....	35.2	.2	71.8

See footnotes at end of table.

One hundred companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
81	Goodrich, (B. F.) Co.....	\$33.0	0.1	71.9
82	Asiatic Petroleum Corp.....	32.9	.1	72.0
83	Hazeltine Corp.....	32.3	.1	72.1
84	Standard Oil Co. (Indiana).....	14.5	.1	
	American Oil Co.....	10.7	(⁵)	
	Amoco Chemical Corp.....	.6	(⁵)	
	Tuloma Gas Products Co.....	(⁵) 6.2	(⁵)	
	Utah Oil Refining Co.....		(⁵)	
	Total.....	32.0	.1	
85	Phillips Petroleum Co.....	29.0	.1	
	Astrodyne, Inc. ⁴	2.7	(⁵)	
	Total.....	31.7	.1	72.3
86	California Institute of Technology.....	31.6	.1	72.4
87	System Development Corp.....	31.3	.1	72.5
88	Kaman Aircraft Co.....	31.2	.1	72.6
89	Johns Hopkins University.....	31.1	.1	72.7
90	Greenland Contractors ¹¹	30.7	.1	72.8
91	Sunray Midcontinent Oil Co.....	.0	(⁵)	
	DX Sunray Oil Co.....	27.0	.1	
	Suntide Refining Co.....	2.6	(⁵)	
	Total.....	29.6	.1	72.9
92	Richfield Oil Corp.....	29.4	.1	
	American Mineral Spirits Co.....	.2	(⁵)	
	Total.....	29.6	.1	73.0
93	Cutler-Hammer, Inc.....	29.5	.1	73.1
94	Transocean Corp. of America.....	.0	.0	
	Aircraft Engineering & Maintenance Co.....	8.0	(⁵)	
	Flight Enterprises, Inc.....	11.5	.1	
	Oakland Aircraft Engine Services, Inc.....	2.0	(⁵)	
	Transocean Air Lines, Inc.....	7.9	(⁵)	
	Total.....	29.4	.1	73.2
95	Cook Electric Co.....	28.4	.1	73.3
96	Lane Construction Co.....	27.8	.1	73.4
97	Puget Sound Bridge & Dredging Co.....	27.4	.1	73.5
98	Mason & Hanger-Silas Mason Co.....	27.3	.1	73.6
99	Continental Electronics Manufacturing Co.....	26.7	.1	73.7
100	Magnavox Co. (the).....	26.7	.1	73.8

¹ Net value of new procurement actions minus cancellations, terminations and other credit transactions. The data include debit and credit procurement actions of \$10,000 or more, under military supply, service and construction contracts for work in the United States; plus awards to listed companies and other identifiable U.S. companies for work overseas.

Procurement actions include definitive contracts, the obligated portions of letters of intent and letter contracts, purchase orders, job orders, task orders, delivery orders, and any other orders against existing contracts, and debit and credit actions that amend, cancel or terminate contracts. The data do not include that part of open-end or indefinite quantity contracts that have not been translated into specific orders on business firms. The data do not include purchase commitments or pending cancellations that have not yet become mutually binding agreements between the Government and the company.

² The assignment of subsidiaries to parent companies is based on stock ownership of 50 percent or more by the parent company, as indicated by data published in standard industrial reference sources. The company totals do not include contracts made by other U.S. Government agencies and financed with Department of Defense funds, or contracts awarded in foreign nations through their respective governments. The company names and corporate structures are those in effect as of June 30, 1959. Only those subsidiaries are shown for which procurement actions have been reported.

³ Less than 0.05 percent.

⁴ Stockownership is equally divided between North American Aviation, Inc., and Phillips Petroleum Co.; one-half of the total military awards is shown under each of the parent companies.

⁵ Less than \$50,000.

⁶ Stockownership is equally divided between General Motors Corp. and Standard Oil Co. of New Jersey; half of the total military awards is shown under each of the parent companies.

⁷ Stockownership is equally divided between Standard Oil Co. of New Jersey and Socony Mobil Oil Co.; half of the total military awards is shown under each of the parent companies.

⁸ Stockownership is equally divided between Standard Oil Co. of California and Texas Co.; half of the total of military awards is shown under each of the parent companies.

⁹ A joint venture of Brown & Root, Inc., Raymond International, Inc., and Walsh Construction Co.

¹⁰ A joint venture of Morrison-Knudson Co., Inc., Paul Hardeman, Inc., Johnson-Drake & Piper, Inc., Olson Construction Co., and Young (F. E.) Construction Co.

¹¹ A joint venture of Kiewit (Peter) Sons, Inc., Groves (S. J.) Sons Co., Johnson (Al) Construction Co., and Condon Cunningham, Inc.

Source: Office of the Secretary of Defense.

QUALITY OF CONTRACTING OFFICERS

The scope of military procurement and its impact upon the national economy and segments thereof and the great responsibility placed upon Government contracting officers raises the point as to the caliber of these individuals. In this connection a discussion involving Senator Kerr, Senator Douglas, and Chairman Carl Vinson of the House Armed Services Committee developed the following points: ²³

Senator KERR. The President said in his speech last January among other things, as I recall, in referring to a certain bomber—I don't know whether he said the value or the cost of it exceeded the amount of its weight in gold—

Mr. VINSON. Silver.

Senator KERR. No; he said gold.

Mr. VINSON. It is absolutely correct, I checked it. And I had the figures submitted to me, but they were classified, and that is the reason I couldn't bring them over here. I have all that information. And I was astonished to know what these missiles and what these airplanes and these bombers are costing. But we have got to have them. These companies are doing a magnificent job. I find no complaint with what they turn out. All I find is that I want them to earn a reasonable profit and not an excessive profit. And if you permit this bill to go through in the language it is written, then they will earn an excessive profit.

Senator KERR. Can you tell us from information which is not classified the aggregate amount of orders outstanding at this time having been given by the Defense Department to contractors?

Mr. VINSON. It is in the neighborhood of \$24 billion.

And, as I say, that brings this thought in mind, 90 percent of all contracts from the Department of Defense are negotiated contracts.

Senator KERR. You mean contracts representing 90 percent of the total value, is that what you mean?

Mr. VINSON. It is 90 percent; 90 percent of all contracts.

Senator KERR. Now, does that mean of the number of contracts or of the total amount of them?

Mr. VINSON. Both volume and in numbers,

Senator KERR. Is it a correct statement, No. 1, that there is now a backlog of \$25 billion to \$27 billion orders outstanding from the Defense Department to contractors.

Mr. VINSON. I do not think that is correct. We are going to spend this year about \$24 billion. I don't consider them backlogs, I don't think that it is being given out for use, but there will be about \$24 billion worth of business.

Senator KERR. But we know there is a very substantial backlog of orders that have not been completed.

Mr. VINSON. That is true, a great many of them.

Senator KERR. Can you give us an idea?

Mr. VINSON. No, I cannot.

Senator KERR. You cannot?

Mr. VINSON. No.

Senator KERR. But whether one has in mind the backlog of unfilled orders or the orders that will be given this year, your judgment is that 90 percent of both in terms of dollars will be on the basis of negotiated contracts?

Mr. VINSON. That is right.

Senator KERR. Not competitively bid contracts?

Mr. VINSON. That is right. The only competitive bidding to amount to anything in the Department of Defense is where we build through the Bureau of Yards and Docks and the Corps of Engineers construction contracts, all construction contracts are bid competitively. Everything over \$10,000 in the Department of Defense, speaking broadly, is done by negotiated contracting.

Senator KERR. Then is it a fact that the only thing the Government has as a substitute for its safety that it would get out of the role competitive bidding is through the Renegotiation Act?

Mr. VINSON. You have hit the nail exactly on the head. That is the only place where the Government can do it.

²³ Senate hearings of June 2 and 3, 1959, Finance Committee, on Renegotiation Act, pp. 99-103.

Senator KERR. And if this bill is amended, or if the present law is amended, we not only would continue to be without the benefit of competitive bidding, but we would surrender much of what the Government has now in lieu of it?

Mr. VINSON. Exactly. Because here sits the Government, here sits the industry, here they sit to talk about the most complicated things that the mind can think of. How can the Government know as much about it as the man who is going to turn it out and going to build it? Why, of course, in all these transactions we are absolutely at their mercy, and if it were not for the Renegotiation Act we would be in worse shape than we are now.

Senator KERR. You referred to the provisions in this bill that required the Board in advance of renegotiation to give to the contractor all of the information which the Government had with reference to the contractor.

Mr. VINSON. I am quoting the language of the bill.

Senator KERR. Let me ask you this question. Either under present law or under this bill, is there anything that requires the contractor to give to the Government all of the confidential information which the contractor has with reference to the cost of the operation?

Mr. VINSON. I fail to find one line along that line of thought.

Senator KERR. Is there anything in the present law?

Mr. VINSON. The present law does not require it.

My counsel says the present law does require it.

Senator KERR. Let's have the counsel advise us as to the extent to which it does that.

Mr. COURTNEY. Senator, the present law requires the furnishing of such data as may be needed by the Board to formulate its judgment. And it has with it, of course, the penalty of presenting false information. So that a contractor is required to present complete and accurate information to the Board.

Senator KERR. It does it in the way of a report, though, and not in the way of an opportunity of representatives of the Board to go into the files of the contractor?

Mr. COURTNEY. No, we have no provision for searching the files.

Senator KERR. There is nothing in this bill that would strengthen the position of the Government in the receiving of more complete detailed information from the contractor than is required under existing law?

Mr. COURTNEY. None.

Senator KERR. That is all, Mr. Examiner.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. First I want to thank Mr. Vinson for great public services. And I hope he will permit me to say very sincerely that I think the whole American public holds him in very high esteem for the magnificent public service which he has given as chairman of the Armed Services Committee of the House, and for his devotion to the public interest, as is evidenced once again this morning.

There is a question that Mr. Dechert raised yesterday that I would like to get your judgment upon. I think I should preface it by saying that I, too, have been shocked by the reports of the Comptroller General, which I know cover only a small fraction of the contracts which have been negotiated by the Department of Defense, which would certainly indicate erroneous statements of costs by the companies, and incompetence or worse by the negotiating officers of the Department of Defense. This is the question which he raised in somewhat different form but which has been worrying me, on this incentive type of contract. Assuming that the Department of Defense continues to get misrepresentation from supply and contracting officers, and assuming that the practices of American business do not change, so that inflated cost statements are made which are not detected by the Department of Defense, if you outlaw the incentive type contract, what protection do we have? Now, Mr. Dechert argued, as I remember, that the incentive type contract would permit one to recapture at least four-fifths of the overstatement of costs by the contractor, and, therefore, was a protection against an erroneous original fixation of the target costs. I know you have given thought to that.

Mr. VINSON. The trouble with an incentive type contract, as I have viewed it in its broad aspect, is that it gives a profit which the contractor is not entitled to earn.

Senator DOUGLAS. And you would think that this could be handled by the Renegotiation Board itself without the intermediary of the incentive type contract?

Mr. VINSON. That is it exactly; they can do so today. Under the law, they can give consideration to cost reduction and efficiency, they can give that con-

sideration today, and the Chairman of the Renegotiation Board will testify no doubt to that effect if you ask him, that that is given consideration.

Senator DOUGLAS. So that the ordinary processes of the Renegotiation Board would help correct overstatements of costs, and you do not need the incentive?

Mr. VINSON. That is it, exactly; you do not need it. I think when you do that, why, then, you notify the Board that they must deal with that in a separate manner from dealing with the whole contract. And it pinpoints it, legalizes it, it gives it status.

Senator DOUGLAS. Mr. Vinson, you have had more experience with this matter than, I suppose, 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 which has crept into our Government, namely, the overstatement of costs, and the excessive profits made in war contracts, and the presence of such a large percentage of negotiated bids rather than competitive biddings?

Mr. VINSON. I have been disturbed about it, and I had one of the staff members—the House accords my committee about \$150,000 a year to build up a staff and look after these matters and this is my general counsel, Mr. Courtney; he has been with the committee for 7 or 8 years—we have made a study of the qualifications of the men who sat across the table from industry. I was dumfounded and shocked at their lack of knowledge on what they were dealing with.

If any man is going to negotiate a \$50 million contract, or \$100 million, to deal in big figures, and he is sitting across the table from the 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.

And, 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 of 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.

Now, 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.

Senator DOUGLAS. I would be handicapped due both to a lack of ability and a lack of experience.

Mr. VINSON. Of course. And so if you don't have some law like this to protect the Government, you are absolutely at their mercy.

Senator DOUGLAS. Mr. Vinson, there is another question that has disturbed me—and I asked for further information from the Department of Defense yesterday—and that is the degree to which high ranking officers in the military, upon their retirement or resignation, become representatives of these big contractors and then deal with their former military comrades across the table, many of whom are their intimate personal friends, and some of whom they have promoted in the past.

Mr. VINSON. Well, that is a question, Senator—please excuse me. I just want to keep my argument close to renegotiation. I know all about it. I know about conflict of interests.

Senator DOUGLAS. Mr. Vinson, would you be willing to let me visit you in your office and obtain private information from you?

Mr. VINSON. Yes, sir. I know all about that; we have that come up all the time.

Senator DOUGLAS. Do you regard it as a problem?

Mr. VINSON. Of course I do. And I know all about it. I know what goes on. And it doesn't only apply there, Senator, it applies up on the Hill here today.

Senator DOUGLAS. You have noticed that also?

Mr. VINSON. Yes. Right up here. You get a bright man, a brilliant man, and give him a position up here, if he stays here 3 or 4 years, industry will want him.

Senator DOUGLAS. Congressmen as well as admirals are mortal.

Senator FREAR. One question, if I may, if the Senator from Illinois has completed his questions?

Senator DOUGLAS. Yes.

Senator FREAR. Regarding the profit from the incentive program in the illustration that you used of \$20,000, is that tax free to the industry?

Mr. VINSON. No.

Senator FREAR. When is tax paid on that \$20,000?

Mr. VINSON. Well, it is paid, I imagine, Senator—I hadn't thought about that—when he pays his other taxes. He has made a profit.

Senator FREAR. If it is taxable, then it is due in the taxable year in which it is received.

Mr. VINSON. That is exactly right.

Senator FREAR. Thank you.

The CHAIRMAN. The next witness is Mr. Thomas Coggeshall, Chairman of the Renegotiation Board.

Mr. COGGESHALL. I would like to be accompanied, Mr. Chairman, by the General Counsel, Mr. Fensterstock.

I would like to say by way of preface to quoting the statement of our position made to the House Ways and Means Committee, we are an independent agency in the executive branch of the Government. We have never asked for our own continuance.

I started my statement at the Ways and Means Committee with this statement:

"As you gentlemen know, it is the fixed policy of the Board not to seek its own continuance. We administer the renegotiation law but we do not recommend or endeavor to initiate legislation to perpetuate it. However, when legislation is proposed to extend the act for a further period, and particularly since such proposals are usually accompanied by amendments to the substantive provisions of the act, the Board has always considered it necessary and proper to provide the Congress with the benefit of its experience in the administration of this complex and highly technical law. If we are to have renegotiation, naturally the Board is interested in helping to achieve the best possible system that can be drawn from the wisdom and experience of all interested persons. It is in that spirit that I speak today."

Now, I come to my prepared statement for this committee.

I am privileged once again to appear before this committee to express the views of the Renegotiation Board on a proposal to extend the Renegotiation Act of 1951 for a further period. This proposal is embodied in H.R. 7086, as passed by the House on May 27, 1959. It was the culmination of 3 days of public hearings and an extended and searching examination, in executive session, I think it was 9 days, of the whole subject of renegotiation.

H.R. 7086 extends the coverage of the renegotiation law for 4 years, from June 30, 1959, to June 30, 1963, and provides certain other amendments. By letter dated May 19, 1959, to the chairman of the Committee on Ways and Means of the House, the Renegotiation Board stated its approval of that bill. It is also the opinion of the Board that the committee wisely rejected the numerous other changes proposed to it during and preceding the hearings.

I will say of some of them, if they were adopted, we would have nothing to do but cut out paper dolls.

The extension of renegotiation beyond the present termination date of the act was requested by the President and recommended by the Department of Defense. The Department has pointed out that world conditions today, and for the foreseeable future, require expenditures in unprecedented amounts for the national defense, and has stated that its procurement pricing techniques are not adequate to protect against excessive profits in all cases, particularly in the area of novel and complex weapons characterized by insufficient cost and production experience. The Renegotiation Board concurs in these views of the Department of Defense. It believes that a further extension of the act is in the public interest, and that the length of the extension is reasonable in all the circumstances.

Section 2(a) of the bill requires the Board, in its consideration of the efficiency of the contractor, to accord particular regard to "contractual pricing provisions and the objectives sought to be achieved thereby, and economies achieved by subcontracting with small business concerns." These matters are in addition to the other elements now specified in the statute under the efficiency factor. The substance of the new provisions is already contained in the regulations of the Board, and in practice has always been taken into consideration by the Board in determining excessive profits. The new provisions thus do not compel any change in the Board's application of the efficiency factor, but it is desirable that they be given statutory expression.

SUMMARY ON NEGOTIATED CONTRACTING

As stated previously (p. 23 and app. 3) our Government found it necessary through the trials and errors of 100 years' or more experience to develop a competitive, advertised bidding procedure when contracting with public funds (Rev. Stat. 3709) :

to give all persons equal right to compete for Government business, to secure to the Government the benefits which flow from competition, to prevent unjust favoritism by representatives of the Government in making purchases for public account, and to prevent collusion and fraud in procuring supplies or letting contracts.

In implementing this legislation it became the custom clearly to state the Government's minimum qualitative and quantitative requirements, to obtain free and full competition by written bids, to open the bids in public and to make awards to the lowest responsible bidders.

Genuinely advertised competitive bids are objective in nature and bidders thereunder benefit from the know-how, experience, and background of their staff whether or not they have had previous military or other Government service. In fact, the more highly-qualified personnel there are on the payrolls of all contracting companies the better, as more intelligent competition should accrue to the advantage of the buyer. Objective bid procedure is a protection to all individuals involved, their principals and the Government. It provides a rule to follow.

This method of contracting protects the Government, the Government officers and employees, the contractors and their officers and employees regardless of their background or former experience in the Government. It is acknowledged that there are certain circumstances which justify deviation from the formal bid procedures, e.g., in case of emergency, when competition is not obtainable, or when specifications cannot be drawn as in the case of unique, or developmental and research items. However, the justification for such exceptions to the general rule should be made to the General Accounting Office or some impartial agency that does not prescribe the use of the exception.

For when the subjective, negotiated procedure is employed, the competition is between the companies with their technical staff, background, facilities, know-how and persuasion, and the Government contracting officers. This procedure permits the exercise of choice and so is subject to influence and pressure.

A great responsibility is thus placed upon the contracting officer of the Government since he is the dispenser of business, often out of all proportion to his salary. This is the lifeblood of industry, communities, States, and regions, and the source of individual employment and well-being. He thus controls great economic power and his actions cannot be considered merely as "procurement matters."

Since negotiated contracting and particularly, cost reimbursement-type contracting is not a testing of free and full competitive forces, it follows that the system as practiced, is actually one of governmental control. Government officers, not competitive forces, dictate decisions of broad economic impact such as location, survival, and expansion of industry.

The question then arises as to whether the best possible job is being done with respect to the satisfying of multiple public needs through

the use of public funds? And are those agencies which are qualified and responsible brought into the decision making aspects of vital economic problems?

CONCENTRATION OF PROCUREMENT

A matter of economic concern also is the heavy concentration of military procurement actions for supplies, services, and construction by States. For the fiscal year 1959, the allocation to California was \$5,282,659,000 or 24.3 percent of the total. By comparison, the next four largest recipients were:

	Amount	Percent
New York.....	\$2,408,734,000	11.1
Texas.....	1,304,740,000	6.0
Massachusetts.....	1,150,522,000	5.3
Ohio.....	1,030,556,000	4.7
Total.....	5,864,552,000	27.1

So the highest five States had 51.4 percent of the total and the lowest 37 as much as the single highest.

By contrast also, some of the States with heavy areas of unemployment had these percentages of the total: Pennsylvania, 3.1 percent; West Virginia, 0.1 percent; Tennessee, 0.5 percent; Kentucky, 0.2 percent.²⁴

Despite the intent of the Armed Services Procurement Act of 1947 and President Truman's admonition to the agencies authorized to negotiate contracts in exceptional cases, the exception is now the rule with 86.6 percent of the contracts being negotiated. The volume of the contracts meantime is being concentrated in the larger companies, with 73.8 percent in the 100 largest and 37 percent in the largest 10. Simultaneously, the riskless cost-reimbursement-type contracts have increased in volume from 12.7 percent of the total in fiscal year 1951 to 40.9 percent in fiscal year 1959 as the fixed-price type dropped from 87.3 percent to 59.1 percent.

There is every reason to believe the Comptroller General of the United States, whose agency has had wide experience in auditing contracts, when he says:

Effective negotiation requires that both Government and industry have a full understanding of all pertinent facts.

Nor can we disagree with Chairman Carl Vinson, of the Armed Services Committee of the House, when he testified:

* * * We have made a study of the qualification of the men who sat across the table from industry. I was dumbfounded and shocked at their lack of knowledge on what they were dealing with.

If any man is going to negotiate a \$50 million contract, or \$100 million, to deal in big figures, and he is sitting across the table from the 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.

And, unfortunately, the Government does not have people who have had that experience and that background, in a great many instances.

* * * * *

²⁴ Staff report, p. 22.

These statements from highly informed and objective public officials confirm the detailed findings from the review of the many negotiated contracts by GAO auditors in recent years that much improvement is needed in negotiated contracts and in contract negotiators.

The overall picture of the quality of the contracting job whereby we have expended \$228.4 billion from fiscal years 1960-59 is not reassuring.

There has been a growing use of contracting by means of negotiation rather than free and full advertised competitive bidding; the contracts are more and more concentrated in the large corporations, thus reducing the production base and eliminating small businesses; there is an acceleration in the use of cost-reimbursement contracts which are not truly competitive but which insure reimbursement with or without economy and efficiency; there is the concentration of contracts in a few States; and there is the grave question as to the ability and caliber of the contracting officers who exercise rather unwittingly enormous economic power.

SURPLUS PROPERTY DISPOSAL

The surplus property disposal program cannot be considered separately from the procurement program. It is, in fact, an indication of the quality of the procurement function from the requirements determination, storage, issue to utilization.

Congressman Curtis, during the hearings, expressed it this way: ²⁵

Representative CURTIS. Just so that we will have in the record what we are talking about, and I have had these before [Holds up document] 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 say this must be stopped. They have been ordered to stop and as soon as whoever has issued the order goes out of the

²⁵ Hearings, p. 116.

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.

SCOPE OF DISPOSAL

Deputy Assistant Secretary of Defense, John M. Sprague, testified that the estimated surplus disposal program for the DOD for fiscal years 1960 and 1961 would be \$10 billion each year. He stated that the disposal program for fiscal year 1959 was \$8.256 billion.

Secretary Sprague also stated that the forecast of realization from disposal of the \$10 billion surplus would be 2 percent of initial cost which would be approximately \$200 million from the \$10 billion disposal program. He estimated that the cost of preparing and selling the material would be about \$65 million so that the return to the Treasury on that basis would be \$135 million each for 1960 and 1961. This is a net return of 1.35 percent on the initial cost of the items.²⁶

It should be noted that the initial cost of items does not necessarily indicate their current value. However, there is no other figure available since the Government's accounting records do not normally reflect depreciated values as to do so would be costly to the Government.

NATURE OF SURPLUS ITEMS

Many of the items which are surplus are obsolete or obsolescent pieces of war equipment such as tanks, planes, missiles, etc. Some of the material is salvage and much of it scrap. Some of the material is new, some used and it is in varying states of condition. However, the hearings²⁷ revealed conclusively that thousands of the items declared surplus are good, usable, and often new pieces of property and much of it not excess or surplus but actually needed in the Federal Government including the Department of Defense itself. Monthly listings of upward to 30,000 excess items of property reflect such items as screws, nuts, nails, bolts, lumber, paint, various kinds of construction material such as aluminum and titanium sheets, motors, canvas, duck, webbing, uniform material, shoes, boots, etc., etc.—almost without end from the millions of items in the many DOD supply systems.

As stated in the previous section, much property included in the stock fund arrangements and needed by other agencies of Government has been donated or sold on the market for a few cents on the dollar. Information from the GSA and from the Bureau of the Budget prove this to be undeniably true.²⁸

In the opinion of the committee there will continue to be this great generation of surplus property in common-type items so long as there are the many separate procurement and distribution systems in the DOD. In order to eliminate the concurrent buying, selling, and other disposal of valuable and needed property it is necessary that total requirements be brought together and matched against total existing inventories before more buying is done. This is not now the

²⁶ P. 26, pt. 4 of DOD H.R. appropriation hearings, fiscal year 1961.

²⁷ Hearings, p. 115 ff.

²⁸ Hearings, p. 565 ff.; p. 577.

case generally. The matching of needs against available supplies is on a haphazard basis throughout the DOD and the executive agencies and will continue so with the multiple depot and inventory control points now in existence.

STANDARD CATALOG

In 1945 President Roosevelt requested the executive agencies to develop a Federal supply catalog in order to have common supply language. The next year a similar request was made by President Truman. (See app. 5.) Since that time an estimated \$200 million has been spent for the development of a catalog system which now includes approximately 3,400,000 or more military items. With the development of the catalog and through the use of modern machine techniques it is possible quickly to take total inventories of all the items in the Federal supply systems, since each individual item has an identifying number and description.

IMPACT OF DISPOSAL ON INDUSTRY

Some disposals of surplus property have heavy impacts upon the industries directly involved because of the volume of the items offered for disposal. It is a matter of deep concern to certain industries that large quantities of items which were procured for the war or emergency programs become available for sale and may be put on the market at a few cents of their original cost.

The hearings disclosed that while the Department of Commerce has primary responsibility in its organic act "to foster, promote, and develop the foreign and domestic commerce" it is only able to act in an advisory capacity to the DOD with reference to the disposal of personal surplus property.²⁹

An agreement has been made between the DOD and the Commerce Department whereby the former asks the advice of the Commerce Department with respect to large contemplated disposals (those where the acquisition cost exceeds \$250,000). The hearings also reveal that the Defense Department need not accept the recommendations of the Commerce Department and sometimes does not do so. This means that the agency which is primarily interested in disposing of property rather than the one which is primarily interested in fostering, promoting, and developing industry makes the decision.

So again we find that military supply management personnel, who may not be aware of the full effect of their actions, make decisions of great economic weight. These decisions may seriously affect not only individuals and organizations but communities, areas, States, and regions.

The committee is of the judgment that the Federal Property and Administrative Services Act (Public Law 152) should be amended to give the Department of Commerce the final judgment in matters of this nature.

DISPOSAL OF ITEMS ACTUALLY NEEDED BY THE GOVERNMENT

Millions of dollars' worth of property has been declared excess to the needs of the Department of Defense and lost to that Department,

²⁹ Hearings, pp. 70-73, 516-526.

when, in fact, the property was not excess. There are three principal reasons for this loss: (1) Billions of dollars' worth of property has been placed in artificial stock fund corporations and not subject to transfer except at a transfer price. In some cases, a needing agency haven't the price to pay³⁰ and in other cases refuse to pay it, and (2) the millions of items in the numerous military supply systems and extensive depots make it difficult to match current needs from hundreds of points against existing supplies, and (3) the several military services have striven mightily to remain autonomous in supply activities on the theory that supply should be "responsive to their command."³¹

CONCLUSION ON SURPLUS DISPOSAL

No one can say how much personal property has been disposed of and lost to the taxpayers when it was not surplus to Government needs, but it has amounted to millions upon millions of dollars and the loss continues and will persist until there is a consolidation of common supply systems and more improvement in the use of stock funds. This does not mean the imposition of still another system but rather the unification and reduction of the sum total of the many existing systems. The term "fourth service of supply" employed by opponents of supply integration is "another tired old slogan" as Secretary Lovett recently designated "the man on horseback"³² and other similar expressions used freely by opponents of improved military reorganization.³²

SUMMARY

It is beyond any question of doubt that the quality of management in the many aspects of military supply management and related activities is such as to cause great economic loss to the Nation continuously. The projection of this mismanagement against the volume of procurement, storage, issue, surplus disposal, and related matters is such that it should be a matter of major concern to the Congress and to the executive branch.

³⁰ Hearings, pp. 565-588. See also Congressional Record, July 1, 1960, pp. 14231-14236 for speech of Senator Douglas on "Purchases of New Government Supplies When Same Items in New Condition Are Available." Full print of Budget Bureau report is included.

³² General Eisenhower said this shibboleth in the Army services is the oldest and the most expensive. Federal supply management hearings before a subcommittee of House Committee on Expenditures, 82d Cong., 2d sess., Feb. 12, 1952, p. 52.

³² "National security seems to me to be more complex than ever. I feel it is a problem we will have with us for generations to come and it is not helped in an open society by either an open mouth or a closed mind. It will most certainly not be solved by trotting out those tired old slogans of warnings about 'reduction of civilian control' and the 'man on horseback' that have been used to divert attention for generations. When you hear them just remember that the chiefs of the branches of the Army used the same 'man on horseback' argument against Secretary Ellhu Root's reorganization plan which established the position of Chief of Staff of the Army." See Congressional Record, Aug. 11, 1960, p. A6063, address of Hon. Robert A. Lovett (app. 6).

PART III-A
CONGRESSIONAL EFFORTS TO IMPROVE SUPPLY
MANAGEMENT

TOP MANAGEMENT AGENCIES

The Congress has given broad authority to two executive and one legislative agency with respect to the management of the Government's property. These agencies are:

The Bureau of the Budget, Executive Office of the President.
The General Services Administration.
The General Accounting Office.

BUREAU OF THE BUDGET

The most powerful agency in the executive branch of the Government is the Bureau of the Budget. It is in the Executive Office of the President, has great control over agencies' estimates, fund apportionments and programs and is also the management arm of the President. It has a large role in the issuance of Executive orders, directives, and correspondence. It has, for years, had authority to submit reorganization bills and plans with respect to executive agencies and to conduct management improvement and survey programs. It has access to the President's emergency fund for special purposes and hires management consultants for special studies.¹ The preeminence of its position in the executive branch is perhaps its greatest power.

The Director of the Bureau of the Budget furnished the following information as to (a) creation and authority, (b) functions, and (c) organization of the Bureau:²

Creation and authority.—The Budget and Accounting Act approved June 10, 1921 (42 Stat. 20; 31 U.S.C. 11-16), provided that the President shall transmit to Congress the proposed annual budget of the United States, together with other budgetary information. The same act created the Bureau of the Budget, locating it in the Treasury Department, but placing it under the immediate direction of the President. Under Reorganization Plan I of 1939, the Bureau was transferred from the Treasury Department to the Executive Office of the President, established at the same time.

In addition to being the Federal Government's budget agency, the Bureau serves as the President's staff for the improvement of management and organization in the executive branch, for the improvement of financial management and accounting systems in the Federal agencies, for the clearance of legislative proposals coming from such agencies, and for the coordination and improvement of the Government's statistical activities.

¹ See list in hearings on general Government matters appropriations for 1961 before a subcommittee of the Committee on Appropriations, House of Representatives, 86th Cong., 2d sess., pp. 148-167.

² U.S. Government Organization Manual, 1959-60, pp. 59-62.

In preparing the budget, the Bureau has authority "to assemble, correlate, revise, reduce, or increase the estimates of the several departments and establishments." Under the Government Corporation Control Act of 1945 (59 Stat. 598; 31 U.S.C. 847), similar authority was given the Bureau with respect to the preparation and review of budgets for wholly owned Government corporations.

The Budget and Accounting Procedures Act of 1950 (64 Stat. 834; 31 U.S.C. 18a, 18b) amended the Budget and Accounting Act by revising and simplifying budget and accounting procedures and by clarifying the Bureau's responsibilities with regard to statistical information and the development of better organization, coordination, and management of the executive branch. The act of August 1, 1956 (70 Stat. 782), amended both the Budget and Accounting Act and the Budget and Accounting Procedures Act, mainly to improve further governmental budgeting and accounting methods and procedures. The act of August 28, 1958 (31 U.S.C. 11), provided for proposed limitations on annual accrued expenditures to accompany proposed appropriations transmitted to Congress under that act.

Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), prescribed procedures by which the Director of the Bureau apportions appropriations, made agency systems of administrative control of funds subject to the Director's approval, and authorized the setting of budgetary reserves.

Under Executive Order 9384 of October 4, 1943, the Bureau reviews agency reports on Federal public works and improvement projects.

Executive Order 10072 of July 29, 1949, and title X of the Classification Act of 1949 (sec. 1001, 63 Stat. 971; 5 U.S.C. 1151) provided that the Director of the Bureau shall issue and administer instructions and regulations to guide the departments in making systematic reviews of their operations on a continuing basis.

Under the Federal Reports Act of 1942 (56 Stat. 1078; 5 U.S.C. 139-139f), the Bureau coordinates Federal reporting and statistical services to eliminate duplication, reduce the cost, and minimize the burdens of furnishing information to Federal agencies. By Executive Order 10033 of February 8, 1949, the Director of the Bureau was given authority to coordinate the provision of statistical information to intergovernmental organizations.

Additional statutory authorities conferred upon the Director require his approval of the printing of periodicals from appropriated funds, of agency regulations dealing with overpayments to Government employees, and of prospectuses of lease-purchase projects prepared by the Administrator of General Services and the Postmaster General before submission to the Senate and House Committees on Public Works. The Director also has authority to issue regulations in such fields as travel on Government business and allowances for uniforms. On appeal of an agency, he makes final decisions with respect to the establishment of motor vehicle pools.

Statement of functions.—Executive Order 8248 of September 8, 1939, establishing the divisions of the Executive Office of the President and defining their functions, sets forth the Bureau's functions as follows:

1. To assist the President in the preparation of the budget and the formulation of the fiscal program of the Government.
2. To supervise and control the administration of the budget.
3. To conduct research in the development of improved plans of administrative management, and to advise the executive departments and agencies of the Government with respect to improved administrative organization and practice.
4. To aid the President to bring about more efficient and economical conduct of Government service.
5. To assist the President by clearing and coordinating departmental advice on proposed legislation and by making recommendations as to Presidential action on legislative enactments, in accordance with past practice.
6. To assist in the consideration and clearance and, where necessary, in the preparation of proposed Executive orders and proclamations, in accordance with the provisions of Executive Order 7298 of February 18, 1936 (superseded by Executive Order 10006 of October 9, 1948.)
7. To plan and promote the improvement, development, and coordination of Federal and other statistical services.
8. To keep the President informed of the progress of activities by agencies of the Government with respect to work proposed, work actually initiated, and work completed, together with the relative timing of work between the several agencies of the Government; all to the end that the work programs of the several agencies of the executive branch of the Government may be coordinated and that

the moneys appropriated by the Congress may be expended in the most economical manner possible with the least possible overlapping and duplication of effort.

ORGANIZATION

The Bureau is headed by the Director, who in its general supervision is assisted by the other principal officials of the Bureau.

Office of Budget Review.—This office coordinates the preparation of the budget and supplemental estimates, the system of apportioning appropriations, and the use of financial reports in budgeting. It prepares fiscal analyses, recommends budget policies and guides, and plans improvements in the budget process and structure.

Office of Legislative Reference.—This office coordinates and clears, for conformity with the program of the President, recommendations of the various agencies with respect to proposed legislation and enrolled bills.

Office of Management and Organization.—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.

Office of Statistical Standards.—This office is charged with the Bureau's responsibilities for the improvement, development, and coordination of Federal statistical services. It serves as the focal point for United States participation in statistical activities of international organizations and maintains surveillance over the publication of statistics in the interests of national security.

Office of Accounting.—This office brings about better financial management throughout the executive branch and works cooperatively with the executive agencies in the improvement of governmentwide accounting practices and procedures. Through this office the Bureau participates in the Joint Accounting Program carried out together with the General Accounting Office and the Treasury Department under the Budget and Accounting Procedures Act of 1950.

The divisions.—Each division is concerned with a broad segment of the Government's program. The divisions are responsible for the Bureau's functions other than those assigned to the offices described above. The divisions are: Commerce and Finance Division, International Division, Labor and Welfare Division, Military Division, and Resources and Civil Works Division. Each division, for its program area, examines agency requests for funds and for apportionment of appropriations, gives continuing attention to the execution of the budget, reviews and develops recommendations on proposed legislation, stimulates and assists the agencies in the improvement of management and organization, and undertakes special projects, including those relating to long-range budgetary and fiscal analysis and organizational planning.

Approved.

MAURICE H. STANS, *Director.*

It would be difficult to write legislative language which would give an agency more power than that possessed by the Bureau of the Budget.

Despite the broad authority given to the Bureau of the Budget by legislation and by its position in the Executive Office it has been extremely inactive with respect to management improvement in the supply and service areas in the Department of Defense, where so much money is spent and where so much is wasted. There is no area in management more challenging and more prospective of economies. Despite these facts and the repeated reports made by responsible committees and organizations, including the Hoover Commission, the Director of the Bureau of the Budget appeared to be unaware of the enormous surplus property and related supply management programs in the Department of Defense when he testified before the Joint Economic Committee on January 28, 1959.³

³ Senate hearings on the January 1959 Economic Report of the President, Joint Economic Committee, 86th Cong. 1st sess., pp. 65-68.

Representative REUSS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Reuss.

Mr. Stans, I want to direct my questions primarily to the field of expenditures of the Department of Defense.

Let me say that I do not think that the budget for the Department of Defense should be further reduced. I think you have made your cuts in the wrong places and have not pushed for economies which could be realized. I think the cut in fighting strength of the Army and Marine Corps reduces our capacity for limited warfare. I think the evidence is pretty clear we should spend more for missiles. But those matters are beside the point.

I would like to call your attention, if I may, to what seemed to me to be shockingly excessive quantities of supplies which are in stock in the Department of Defense. I have a report of the House Committee on Government Operations. And on page 100 it shows that the supply system inventories of the Department of Defense as of last June 30 amounted to \$46,600 million.

That undistributed stocks were \$2.4 billion; leaving distributed stocks at \$44.1 billion. That the peacetime operating reserve was set at \$14.5 billion. The mobilization reserve was \$12.1 billion. Thus the large reserves both for peace and for war—and a long war at that—came to \$26.6 billion. This leaves supplies in inventories of \$17.5 billion in excess of needed peacetime and wartime reserves.

Now, it is admitted by the Department of Defense that the excess stocks alone amounted to \$10.4 billion. Then there are two other categories that certainly seem to me to fall in the line of excess stocks. Economic retention of \$5.6 billion, and a contingency retention of \$1 billion.

This is following out a question that Congressman Curtis raised at conclusion.

What should be done is to draw down these reserve stocks for current use and diminish the volume of purchases and then use the money thus saved to provide more combat strength for the Army and the Marine Corps and for more missile strength for the Nation.

I would like to have your comments on that.

If you do not have that copy of that bulletin, I will be glad to give it to you. It is on page 100.

Mr. STANS. Mr. Chairman, I had the opportunity of reading a good bit of this report over the last weekend. And I found it very interesting, as you did. And I have instituted some analyses of the underlying information in order to determine what the Bureau of the Budget can do to help in solving the problem that it portrays.

I think there are some things that probably are inherent in this situation. One is that I am sure the stocks of inventories in the Department of Defense still reflect to a large extent the Korean and early post-Korean procurement. Secondly, I am convinced from my own knowledge that this type of information in defense is a result of tremendous improvements in their accounting processes that have taken place in the last few years.

Some few years ago it may not have been able to develop this kind of information.

The CHAIRMAN. I may say these improvements have been the result of persistent pressures of Members of the House and Senate against the opposition of the Department of Defense and the administration.

Representative CURTIS. All administrations, Senator.

The CHAIRMAN. I think that is correct.

Mr. STANS. Beyond that I think also, we have to recognize that obsolescence is almost a normal function in defense. The development of new weapons assumes that old weapons will become obsolete.

The CHAIRMAN. Yes. But, Mr. Stans, a large portion of this is not in obsolete weapons, but in clothing, food, communications equipment, general supplies, repair parts and so forth, which could be used for peacetime training purposes.

In peacetime training you don't have to have the most advanced equipment.

Mr. STANS. I understand some of the facts the Senator mentions. And they are in this report. I know that the Department of Defense has a very substantial program to step up the disposal of surplus and to use usable equipment. I don't know what proportion of this inventory is involved in that program. All I can assure you is that since this report came out, it has become quite interesting to us, and we intend to look into the matter with the Department of Defense.

The CHAIRMAN. I may say it is the intention of the Senator from Illinois to propose, when the Defense Department bill comes before the Senate, reductions in items calling for purchase of new supplies and a transfer of the funds thus

saved to the Army and to the Marine Corps to increase their actual fighting and combat strength and to the various branches of the armed services which have the missile program and to whom the missile program has been confined.

I will be very glad to get your cooperation rather than the resistance of the administration.

Now let me turn to another matter. That is the relative predominance of negotiated contracts over advertised bid contracts. I have here a report by the Secretary of Defense himself for the year July 1957-June 1958. On page 26 it shows that of the 5 million—and I give to the nearest hundred thousand—5,100,000 contracts awarded by the Department of Defense during the fiscal year June 1958, only 275,000 resulted from formally advertised bids—competitive bidding, in other words. Only 5 percent! But 95 percent were negotiated.

In terms of dollar volume, of the \$23.7 billion, only \$3.3 came from advertised or competitive bidding; \$20.4 of the dollar volume of contracts let came from negotiated bids; 14 percent from competitive bids, 86 percent from negotiated bids.

Now, I may say that the Senator from Illinois and others have been hammering at this point for years, year after year after year, because negotiated bids permit agreements between suppliers to the Government and the Government procurement officers.

And they tend on the whole to result in excessive expense.

Now, granting that some of these contracts would have to be negotiated, because you wouldn't want in the case of secret weapons and so forth to publish the details to the world, nevertheless if any city government were to follow the purchasing practices of the Department of Defense they would be blasted as grossly incompetent and in league with the suppliers.

Now, I think 7 years ago the Senator from Illinois first raised this point. Nothing happened. The battle has been raised on the House side. I think the Congressman from Missouri has raised it.

Representative CURTIS. Constantly.

The CHAIRMAN. This continues year after year.

Now is there anything that we can do to force the Department of Defense to comply with decent competitive practices?

Mr. STANS. Senator, I am not wholly acquainted with the statistics you mentioned. But I recognize that the situation does exist. Obviously the Department of Defense people have this responsibility. And I think they could answer much better than I can as to the ratio.

I would like to point this out. That when it comes to purchasing an Atlas missile or any of the other modern weapons of war which involve tremendous amounts of money, I don't believe it is possible to get competitive bids.

The CHAIRMAN. My time is up.

For the sake of the newspapermen, I would like to identify the first report which lies on the table there as coming from the House Committee on Governmental Operations. And it is entitled "Federal Real and Personal Property Inventory Report." I may say it shows total personal property holdings of the Government of \$120 billion.

Now, let's try the second round of questioning. And this time I think we should limit ourselves to 5 minutes.

Representative CURTIS. Senator, I want to pick up on just one point.

I think, let's not be too satisfied when the military come back and say that the negotiated bids are necessary because of the military aspect. I was very much interested in Admiral Rickover's statement that the *Nautilus* was built almost entirely through competitive bidding. And furthermore there was no subsidies in the building of the *Nautilus*.

I think that this is an area—and I am convinced after some 9 years' study as a Member of the Congress and 4 years in the Navy—that in this general areas we still have not gotten to the bottom. Here is an area in which we could be saving billions and getting more adequate defense.

One item I wanted to go back to is on natural resources. On page 26 in "The Budget in Brief" there is a very good explanation, and inasmuch as Senator O'Mahoney made some points on there, there were two things I wanted to just have developed a little further.

One, you do say that there is money in the budget to continue investigation and advance planning and to assemble basic data for future projects. So I presume that it is in the future to have new starts in water resources?

Mr. STANS. Oh, there is no thought at all of stopping permanently the development and conservation of the natural resources of the country. This is a budget policy for the year 1960.

And, as you say, there is planning money looking ahead to the development needs of the country and ways of supplying those needs.

Representative CURTIS. Now, the next item in this same thing—and this is the area I am interested in in line with my questioning: You state that you are making studies to figure out a better formula in the uniform basis of cost sharing for projects—that is, sharing with the local beneficiaries.

Do you contemplate that in this area we might be able to save money for the Federal Government and at the same time go ahead with possibly even an accelerated pace of developing our water resources?

Mr. STANS. Well, I think there are several aspects to that. One is that a uniform policy has all the advantages of uniformity. It prevents discrimination and unfairness in some cases, and it prevents other projects from going ahead without a fair share of contribution by local interest.

The Director's surprise at the scope of the personal property inventories of \$120 billion and supply system inventories of \$46.6 billion as expressed in the Annual Report of the Government Operations Committee of the House as of June 30, 1958, is revealing since the report had been issued for several years and Budget Bureau staff has been annually consulted during its preparation.

But the scope of these activities should not have been surprising to Director Stans though he is comparatively new to the Federal Government. His staff has been familiar with these reports for many years and it is inconceivable that figures in the billions could escape the Budget Director's attention when relatively small amounts often get wide publicity.

It is also significant from a management viewpoint that the Budget Bureau took but small interest in the Second Hoover Commission activities, whereas it was most active in assisting during the First Hoover Commission. During the First Hoover Commission (1947-48), the Bureau contributed the services of many of its staff while during the period of the Second Commission (1953-55) its contribution was very meager if not hostile.

This failure to support the Second Commission is the more amazing considering that the new administration was pledged to streamline the Government and curb the overgrown bureaucracies. Further, the legislation creating the Second Hoover Commission was much broader than that creating the First Commission thus providing more opportunity for improvement.

Budget Bureau witnesses outlined their accomplishments in the supply management field to the subcommittee when they testified on January 29, 1960.⁴ But these accomplishments are relatively thin when compared to the needs, possibilities, and the Bureau's vital interests and great potential authority.

Reluctance to assume responsibility

The principal Bureau witness concluded his prepared testimony as follows:

Mr. STAATS. 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.

⁴ Hearings, pp. 216-220.

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 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 estimates 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.

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 Government-wide 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 Defense 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 CURTIS. 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 of 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 Service 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.

The Bureau representatives showed an interest but not a sense of urgency in respect to other matters such as accelerating and consolidating the single manager plans in the DOD. The following testimony will emphasize the point: ⁵

⁵ Hearings, pp. 235-236.

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?

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.

Representative CURTIS. That is the old, wornout excuse; "we must not move too fast."

I agree 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 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.

Use of stock funds

The lack of aggressive leadership was also revealed in the review of stock fund policies. Committee members were interested in learning why the Air Force used stock funding about 3.8 percent for common administrative supplies when the other three services (Army, Navy, and Marines) used the stock funding approximately 93 percent. The Budget Bureau witness indicated in effect that the Bureau had gone along with the Comptroller of the DOD in this matter and had been unable, however, to get the Air Force to utilize stock funds to the same extent as the other three services⁶ (app. 7). The Budget representatives would not admit the existence of a management problem or accept responsibility for the wide discrepancy in use of the funds but indicated the hope that the committee would go into the matter with the DOD representatives when they appeared before the committee.

It was apparent to the committee that the Bureau had not developed a position as to when stock funds should and should not be used even though the military stock funds contain \$8 to \$10 million of assets in stock and cash and have been the cause, from the Bureau's own report, of the Government losing millions of dollars worth of property because other agencies would not or could not reimburse the stock fund managers for it.⁷

It is interesting also that while the Bureau of the Budget followed the lead of the Comptroller of the Department of Defense as to the use of stock funds, the hearings of the subcommittee on the question of whether the Air Force or the other military services was correct in their contradictory positions as to the use of stock funds, elicited this reply:⁸

Representative CURTIS. On the other hand, maybe the Air Force is right.

Mr. RILEY. We have recognized, Mr. Curtis, the differences in the military services on the stock fund for some time.

⁶ Hearings, p. 242.

⁷ Ibid., p. 565.

⁸ Ibid., p. 390.

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.

In sum then, the Budget Bureau followed the advice of the Department of Defense Comptroller and actually put heavy pressure on the Air Force to adopt greater use of the stock funds when the supply and logistics experts in the Department of Defense did not know the answer as to the use of stock funds (app. 7).

It is strange that neither the DOD nor the BOB has arrived at a conclusion as to when stock funds should and should not be used. The BOB, in cooperation with the GAO and the Treasury Department issued a report in June 1949 entitled: "A Federal Inventory Control System." This report indicates that supply revolving fund appropriations should be used where funds for procurement and issue of common items are available to several appropriation units. In other words, if there are several units using the same type of supply, economy and efficiency may be secured by the use of a revolving fund which carries common stores items. A good example of this is the general supply fund of the Federal Supply Service of the GSA. Also, this was the basic philosophy of the Navy when it conceived the stock fund idea in 1893. One hundred twenty-five or more Government agencies draw common supplies from the Federal Supply Service, thus turning the stock several times per year. The greater the number of customers and the more rapidly items turn, the less the overhead charge per item since it is prorated on the greater issue.

On October 1, 1954, the important Cooper committee report entitled: "Financial Management in the Department of Defense" prepared by 12 fiscal authorities stated:

* * * the committee believes that revolving funds (i.e., stock and industrial funds) have contributed to progress in certain areas, e.g., where a buyer-seller relationship is appropriate, where there are common-use inventories, and where industrial or commercial-type installations serve a variety of customers.

Support of GSA

Another indication of the failure of top management to take full advantage of the possibilities of economy and efficiency in the supply and related service areas is the failure of the Budget Bureau to vigorously support GSA in carrying out its program.

This point is illustrated by the following colloquy which occurred during the hearings of the subcommittee on January 28, 1960, between Chairman Douglas and Mr. Floete, Administrator of GSA:⁹

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. Handtools; yes, sir.

⁹ Hearings, pp. 55-56.

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. FLOETTE. 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."

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.

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.

This conversation referred to the fact that a Presidential directive of 1949 required the DOD to cooperate with GSA. The directive was revoked in 1954. (See pp. 50-59.)

The Deputy Director of the BOB testified to the effect that he considered that the earlier directive or something of its nature should be restored in order that GSA and the military agencies might be able to proceed on a firm foundation which could not be overturned by unilateral action by a Secretary of Defense.¹⁰ This has not been done to date, and probably will not in view of the administration's position (app. 8).

Recent studies by the Budget Bureau

In fairness to the Bureau of the Budget and to Director Stans it should be noted that since the matter of supply management was brought to his attention, 2 important reports have been issued by the Bureau:

1. "Excess Property Project Findings and Recommendations on the Problem of Reimbursement, Transfer of Excess Property."¹¹

This report reveals that the Government loses large amounts of excess stock fund property on account of unrealistic charges for the property by stock fund managers.

2. "Summary Report on Excess Person Property Utilization Test."¹²

This report shows that Government agencies do not take advantage of property available on excess property lists but prefer to buy new property so that much useful excess property is sold at a few cents on the dollar.

Further indication of the interest of the Director of the BOB was revealed in his testimony before the House Appropriations Committee¹³ wherein the BOB representatives urged the committee to increase the Budget Bureau staff of specialists to assure a continuous

¹⁰ Ibid., pp. 56, 61-63, 260, 278.

¹¹ Hearings, p. 565.

¹² Congressional Record of July 1, 1960, pp. 14235 and 14236.

¹³ House Appropriations Committee hearings on general governmental matters for 1961, pp. 108 and 165.

effort in the field of property management including programs for the disposal of excess and surplus real and personal property. The Director stated—

there have been a number of public criticisms of the Bureau for failing to do an adequate job in the field of management improvement going back as far as the last Hoover Commission.

The Bureau's current attitude toward more support to the common supply program of the GSA¹⁴ is also encouraging despite the fact that earlier Budget Bureau action had been responsible for the cancellation of the Truman directive of 1949 which required the DOD, GSA, and the BOB to work cooperatively toward attaining areas of understanding in supply and related matters.

Conclusion

Though no agency has more at stake, it is a fair conclusion that the Budget Bureau has not effectively used its great authority and prestige except in a limited way to accomplish necessary and attainable economy and efficiency in military supply and service activities and in related activities in the General Services Administration.

Budget Bureau witnesses have seemed content to take the position that vital supply and service management activities, though honeycombed with waste and inefficiencies, are not the Bureau's responsibility. Since the budgets for all these activities are justified to and through the Budget Bureau and since it has the broadest possible management authority and responsibility, it is difficult to understand how it can ignore these matters which involve possible savings of billions of dollars.

GENERAL SERVICES ADMINISTRATION

For years many Members of Congress realized the importance of establishing a permanent overall property management agency. In 1943 the House Expenditures Committee approved a bill (H.R. 2795) designed to establish an efficient, businesslike system of property management. The bill passed the House on June 9, 1943. The Senate took no action on the bill and the growing surplus property problems caused Congress to discontinue consideration of permanent property management legislation and instead enacted the Surplus Property Act of 1944 to deal with this special problem.¹⁵ The Surplus Property Act of 1944 was of a temporary nature and by its own provisions was due to expire "three years following the date of the cessation of hostilities in the present war."

As early as 1945 Budget Bureau staff in cooperation with other agencies began to develop drafts of legislation to create a permanent property management agency. On March 5, 1948, the President sent a message to Congress recommending—

the liquidation of the temporary arrangements for disposing of surplus war property and for the completion of the remaining disposal activities within the permanent Federal establishment.

He also requested the Congress to develop legislation for the creation of a permanent agency.¹⁶

¹⁴ Hearings, p. 215; see also staff report, pp. 227-231.

¹⁵ Public Law 457, 78th Cong., 2d sess.

¹⁶ H. Doc. 558, 80th Cong., 2d sess.

In March and April 1948 the Senate Expenditures Committee held hearings on a bill to reorganize and simplify the procurement, utilization, and disposal of Government property. The bill S. 2754 (80th Cong., 2d sess.) was approved by the Senate committee but no action was taken by the House during the session.

In developing the bill a major problem was how to gear the large military activities with those of a civilian agency responsible for common supply and related activities. As would be expected the military representatives tried to exempt their agencies from the application of the act. They insisted that real progress was being made in the military agencies with regard to procurement, that approximately 84 percent of procurement was being done by a single department, a joint procurement agency, or by collaborative procurement.

The principal military witness on the bill unblushingly advised the committee:¹⁷

We have coordinated our procurement, and at the present time about 80 percent of the supplies and services of the three departments are bought in coordination with the other departments. That is the result of wartime experience. Now, I think we have come to almost the irreducible minimum, because there are certain things that the Navy buys that the Army has no need for * * *.

Despite the contentions of progress by the military witnesses, there was strong sentiment in Congress, based upon the recent war experiences of military extravagance and waste, that the military agencies should be brought into the basic act. This attitude was strengthened by the competent findings and conclusions of the first Hoover Commission.¹⁸

So in 1949 Congress passed the Federal Property and Administrative Services Act (Public Law 152) and the President signed it on June 30, 1949—to simplify the procurement, utilization, and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes.

The declaration of policy states:

SEC. 2. It is the intent of the Congress in enacting this legislation to provide for the Government an economical and efficient system for (a) the procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, specifications, property identification and classification, transportation and traffic management, management of public utility services, repairing and converting, establishment of inventory levels, establishment of forms and procedures, and representation before Federal and State regulatory bodies; (b) the utilization of available property; (c) the disposal of surplus property; and (d) records management.

In many respects the principal section of the act is section 201(a), which deals with property management—procurement, warehousing, and related activities (app. 8).¹⁹

Section 201(a) was developed after long negotiation at the Budget Bureau level, at the White House, and in the congressional committees. It was written to give the Administrator of GSA broad authority to

¹⁷ Hearings of Senate Expenditures Committee, March and April 1948, on the bill to reorganize and simplify the procurement, utilization, and disposal of Government property, p. 76.

¹⁸ The Commission on Organization of the Executive Branch of the Government, report on "Office of General Services-Supply Activities, February 1949."

¹⁹ Hearings, p. 62 ff.

develop economy and efficiency with regard to the Government's supply and related service functions.

The Secretary of Defense, however, was given authority to exempt the Department of Defense, unless the President should otherwise direct, from actions taken by the Administrator when the Secretary determined that such exemptions were in the best interests of national security.

The President did otherwise direct and told the Budget Bureau, GSA, and DOD to get together and develop areas of understanding with respect to the conduct of the many facets of the GSA act that involved both agencies (app. 8).

The heads of the three agencies concerned prepared and signed a general policy statement: "Development of Areas of Understanding Between General Services Administration and Department of Defense Pursuant to Public Law 152, 81st Congress."

An "area of understanding program" was developed and continued for some time, but for some unknown reason on June 8, 1954, President Eisenhower was prevailed upon to rescind President Truman's directive of July 1, 1949. As a result, the Secretary of Defense may now unilaterally exempt the DOD from basic provisions of section 201(a) any time he chooses.

The Secretary of Defense has exempted his agency with respect to certain utility functions.²⁰

In the subcommittee's view, the GSA is not now on a solid ground for operation when it is possible for the Secretary of Defense to literally jerk the rug any time he is persuaded to do so. The Budget Bureau takes the rather naive position that there is no danger of this happening, that the DOD and GSA have made some progress through cooperative efforts. While some progress has been made, an honest evaluation of the cause is more likely to indicate congressional and other pressures than motivation stemming from a true spirit of cooperation on the part of the military. Painful experience belies such a conclusion (app. 8).

The authority given to the Administrator of GSA 11 years ago respecting property management activities has been met only to a limited degree. For example, Administrator Floete testified that GSA, the central agency which serves 9 executive departments (DOD excluded) and 55 independent agencies or approximately 125 agencies altogether at 30,000 customer locations, in fiscal 1959 actually purchased about \$833 million in supplies and equipment from a total Government procurement of some \$30 billion or about 3 percent. Of the \$833 million, 63 percent is for the DOD and 61 percent of this for the Air Force.²¹

GSA only stocks 9,000 items in its stores compared to 3.4 million in the defense system and had a stores inventory valued at \$51.6 million on June 30, 1959. This is slightly over one-tenth of 1 percent of the military holdings of \$47 billion.²² The GSA has 11 major depots and 2 annexes with a total of 5,754,000 square feet of space (1%) of the 585,329,000 square feet reported by agencies in the

²⁰ Hearings, p. 63.

²¹ Hearings, p. 48.

²² Hearings, p. 67.

DOD as of June 30, 1959.²³ The total GSA space in all locations is roughly equivalent to that of one of the larger military installations such as:

[In millions of square feet]

Naval Supply Depot, Norfolk, Va.....	5.187
Naval Supply Center, Oakland, Calif.....	7.054
Stockton Annex, Naval Supply Center, Stockton, Calif.....	5.437
Naval Supply Depot, Mechanicsburg, Pa.....	7.921
Kelly Air Force Base, San Antonio, Tex.....	5.453
Columbus General Depot, Columbus, Ohio.....	5.447
Letterkenny Ordnance Depot, Chambersburg, Pa.....	6.050
Richmond Quartermaster Depot, Richmond, Va.....	5.011
Anniston Ordnance Depot, Anniston, Ala.....	5.966

GSA buys 83 percent of its stores items by direct competitive bid.²⁴

Conclusion

GSA is only doing a fraction of the common administrative supply job that it was intended to do by important basic legislation enacted 11 years ago. There are many additional classes of common supply now being handled by DOD agencies that should be turned over to the GSA. DOD's own report on GSA's performance shows that it is superior to that of the DOD agencies in most important respects.²⁵

At the time of the subcommittee hearings (Jan. 28, 29, 30, 1960) there was considerable discussion as to the possibility of GSA procuring hand tools and paint items for the four military services. It seemed logical that this should be done since GSA has been doing an excellent job in supplying the Air Force with hand tools for some time in the judgment of the Air Force and industry representatives.

In addition, the DOD's own report on item commonality showed that of the 50,373 items in the Federal Supply Group (handtools) there were only 13,042 items used by two or more of the services or a 25 percent commonality.²⁶

The same DOD report also showed that the GSA supply system for common items was generally more economical and effective than that of the military services.²⁷

Information before the subcommittee was also to the effect that the military services have declared large quantities of paint surplus during the past several years. About \$6 million worth, was declared surplus in a year and a half in 1957-58.²⁸

The large surpluses are due to lack of standardization in specifications, overbuying and slow turnover and hence long and costly storage.

It is estimated that the military stocks of paint turn less than one time per year whereas the turnover for the GSA stocks is approximately 3.5 times.

Assistant Secretary of Defense McGuire testified that:²⁹

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 * * *.

²³ "Federal Real and Personal Property Inventory Report of the U.S. Government," House Committee on Government Operations, 86th Cong., 2d sess., p. 86.

²⁴ Hearings, p. 49.

²⁵ Armed Forces supply support center study project 59-2, September 1959.

²⁶ Hearings, p. 162.

²⁷ Ibid., p. 162.

²⁸ Ibid., p. 181.

²⁹ Ibid., pp. 369-370.

Representatives from the BOB also testified that GSA, in many respects, was doing a better supply management job regarding common use items than the military services, that they were obtaining more competitive bids and were also rendering more assistance to small business concerns.³⁰

Despite the superior record of GSA and the assurances given by DOD representatives and the approval by witnesses from the BOB, as of the date of this report there has been no firm determination as to what handtool and paint business will be turned over to the GSA to conduct for the military services. Indications are that there has been considerable foot-dragging and while promises have emanated from top side in the Pentagon the implementation has been slow at the working level.

Conclusion on role of GSA

The Federal Property and Administrative Services Act (Public Law 152, 81st Cong.) gave the GSA an important role with respect to common supply and service activities. That was 11 years ago and the time has long since passed when a greater effort should be made to firmly establish the GSA role.

Studies made by the DOD itself indicate that GSA has a better performance record in handling common supply items than the military agencies. It has a faster turnover of stock, less long stock and surplus, better utilization of depot space, a superior record with respect to competitive bids and assistance to small business and superior delivery time on requisitions. There are many additional items and classes of common supply which should be turned over to GSA from the military agencies. The Bureau of the Budget should use its great authority and prestige in helping to define the GSA role so there will be no misunderstanding concerning it. There should not be a duplication of effort by GSA but there should be a transfer of function, personnel, stock, space, facilities and funds necessary to do the job in order that the total overall organization will be less instead of greater in the future.

Such transfer of responsibility will not only bring about economy and efficiency but it will relieve the military agencies of civilian and commercial type activities which they do not need to perform.

As Congressman Curtis commented during the subcommittee hearings:³¹

Furthermore, I think the extent to which we can get the military personnel dealing 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.

GENERAL ACCOUNTING OFFICE

The GAO is the top management agency responsible to the legislative branch. Pertinent information about it as stated in the U.S. Government Manual follows:

Creation and authority.—The General Accounting Office, which was created by the Budget and Accounting Act of June 10, 1921 (42 Stat. 23; 31 U.S.C. 41), is vested with all powers and duties of the six auditors and the Comptroller

³⁰ Hearings, pp. 212-221.

³¹ *Ibid.*, p. 281.

of the Treasury, as stated in the act of July 31, 1894 (28 Stat. 205), and other statutes extending back to the original Treasury Act of September 2, 1789 (1 Stat. 65; 5 U.S.C. 241). The scope of activities of the accounting officers of the United States was extended in the Budget and Accounting Act of June 10, 1921, and has been further extended by subsequent legislation, including the Government Corporation Control Act (59 Stat. 597; 31 U.S.C. 841), section 206 of the Legislative Reorganization Act of 1946 (60 Stat. 837; 31 U.S.C. 60), sections 205 and 206 of the Federal Property and Administrative Services Act of 1949 (63 Stat. 389, 390; 40 U.S.C. 486, 487), the Post Office Department Financial Control Act of 1950 (64 Stat. 460; 39 U.S.C. 794), and Part II of the Budget and Accounting Procedures Act of 1950 (64 Stat. 834; 31 U.S.C. 65).

Purpose.—The purpose of the General Accounting Office, an agency in the legislative branch of the Federal Government, is to perform an independent audit of Government financial transactions to provide a basis for the settlement of accounts and to determine how well the agencies are managing their financial affairs; in so doing, exercise the power of disallowance based on the finality of the Comptroller General's settlement of accounts and claims, and report to the Congress in special and annual reports its findings as to financial conditions in the Government.

In order to accomplish its purpose, the General Accounting Office has responsibility: for performing an independent Government-wide audit of receipts, expenditures, and use of public funds; for prescribing principles, standards, and related requirements for accounting to be observed by the executive agencies, and cooperating with the agencies in carrying out their primary responsibilities for the development of their own accounting systems; for settling claims by or against the United States; for rendering legal decisions pertaining to governmental fiscal matters; for performing investigations relating to the receipt, disbursement, and application of public funds; for reporting to the Congress the results of its activities including recommendations to further the effectiveness of governmental financial operations; and for other related functions.

Organization.—The General Accounting Office is under the control and direction of the Comptroller General of the United States, who is appointed by the President, with the consent of the Senate, for a term of 15 years. It includes the Office of the Comptroller General, the Division of Personnel, the Office of Administrative Services, the Office of the General Counsel, the Office of Investigations, the Accounting Systems Division, the Division of Audits, the Claims Division, the Transportation Division, and the European Branch. A large part of the activities of the Office are carried on at various locations throughout the United States, its Territories, and elsewhere in the world, either at established field offices or otherwise, depending on the demands of the work. However, field offices or field parties perform no function independent of the headquarters of the Office at Washington, D.C., to which they are subordinate. Final authority in the General Accounting Office is vested in the Comptroller General. In the absence or incapacity of the Comptroller General, the Assistant Comptroller General, the General Counsel, the Assistant to the Comptroller General, and an Associate General Counsel have been designated in the order named to act in his stead.

Rules, regulations, and decisions.—The Comptroller General makes such rules and regulations as deemed necessary for carrying on the work of the General Accounting Office, including those for the admission of attorneys to practice before it. Under the seal of the Office, he furnishes copies of records from books and proceedings thereof, for use as evidence in accordance with the act of June 25, 1948 (62 Stat. 946; 28 U.S.C. 1733).

All decisions of the Comptroller General of general import are published in monthly pamphlets and may be obtained for a nominal fee from the Superintendent of Documents, United States Government Printing Office. These decisions also are published in an annual volume entitled "Decisions of the Comptroller General of the United States." The appendix to this volume contains general regulations of the General Accounting Office, including those applicable to the public, and rules and regulations prescribed by the Comptroller General pursuant to the Government Corporation Control Act, as amended.

Warrants.—Approval of appropriation warrants is the initial control of appropriated funds exercised by the General Accounting Office. These warrants, when authorized by law and signed by the Secretary of the Treasury, become valid when countersigned by or in the name of the Comptroller General.

Audits.—The financial transactions of the executive, legislative, and judicial agencies, including but not limited to the accounts of accountable officers, are audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. Due regard is given to generally accepted principles of auditing, including consideration of the effectiveness of the internal control, accounting organizations and systems, and related administrative practices of the respective agencies.

Investigations and reports relating to public funds.—It is the duty of the Comptroller General to investigate, at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds; also, to make recommendations to the President, when requested by him, and to Congress, concerning legislation necessary to facilitate the prompt and accurate rendition and settlement of accounts, as well as concerning such other matters as he may deem advisable in regard to the receipt, disbursement, and application of public funds and economy or efficiency in public expenditures. It is the duty of the Comptroller General also to furnish to the Bureau of the Budget such information relating to expenditures and accounting as it may request from time to time.

The Comptroller General is required to make investigations and reports when ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures, furnishing assistants from his office to aid such committees when requested to do so, and to report to Congress every expenditure or contract made by any department or establishment in any year in violation of law. He also reports to Congress upon the adequacy and effectiveness of departmental inspection of the offices and accounts of fiscal officers, and is authorized by law to have access to and to examine any books, documents, papers, or records—except those pertaining to certain funds for purposes of intercourse or treaty with foreign nations—of all departments and establishments for the purpose of securing information regarding the powers, duties, activities, organization, financial transactions, and methods of business of their respective offices.

Reports relating to analyses of expenditures.—The Comptroller General is required by law to make an expenditure analysis of each agency of the executive branch of the Government, including Government corporations which, in the opinion of the Comptroller General, will enable Congress to determine whether public funds have been economically and efficiently administered and expended, and to submit related reports to the Committees on Expenditures in the Executive Departments, to the Appropriations Committees, and to the legislative committees having jurisdiction over legislation relating to the operations of the respective agencies of the two Houses.

Accounting systems.—Under the Budget and Accounting Act, the Budget and Accounting Procedures Act of 1950, and related acts, authority and responsibility for prescribing principles, standards, and related requirements for accounting to be observed by the executive agencies is in the Comptroller General of the United States. However, this responsibility must be exercised so as to permit the executive agencies to carry out their duty for establishing and maintaining systems of accounting and internal control.

Advance decisions.—Upon the application of disbursing officers, the head of any executive department or any independent establishment not under the executive departments, or certifying officers, the Comptroller General is required to render his advance decision upon any question involving a payment to be made by them or under them, or pursuant to their certification, which decision, when rendered, governs in the settlement of the account involving the payment inquired about.

Settlement of accounts and claims.—The General Accounting Office is charged with the responsibility of settling the accounts of disbursing officers who are accountable for public funds and of making settlements with certifying officers when there are exceptions stated against them on account of improper certifications made by them on vouchers. The Office also settles claims (1) against the United States as required by law or where doubt of legal entitlement exists, (2) by the United States where efforts by the responsible agencies have not been successful.

The balances certified by the Comptroller General are final and conclusive upon the executive branch of the Government. However, the Comptroller General may review on his own motion any settled account when it is in the interest of the United States to do so.

Approved.

JOSEPH CAMPBELL,
Comptroller General of the United States.

Studies and reports

As indicated previously (p. 18) the GAO has made 100 or more audit reports during the past 2 years pointing to vast inefficiencies and waste in the supply and service function in the DOD. These reports have been so thorough and constant up to today as to leave no doubt in any objective person's mind that the many supply and service management systems in the DOD need major overhauling.

The Comptroller General of the United States and the staff which has been making these valuable audit reports on supply and service management in the DOD are to be commended for the excellent service they have rendered to the Government and to the taxpayers. Their job has not been easy in obtaining the information needed. Unlike the BOB their requests for information are often turned down or delayed on the basis of executive privilege.³²

But the constant effort, perseverance, and thoroughness with which the GAO auditors have pursued this matter have been influential in focusing public and congressional attention on a situation which has long since needed improvement.

³² Annual Report of Comptroller General of the United States, 1959, pp. 77-82.

PART III-B

CONGRESSIONAL EFFORTS TO IMPROVE SUPPLY MANAGEMENT

THE DEPARTMENT OF DEFENSE

Congressional efforts to improve military organization and the quality of military supply management have been long, spasmodic, and relatively futile. One of the most persuasive arguments for reorganization has always been the need to eliminate waste in the supply management field where so much commonality exists among agencies as to personnel, items, specifications, testing, inspection, auditing, storage, distribution, surplus disposal, etc. The efforts have stretched through many administrations and Congresses but the problems persist due to bureaucratic resistance, business, constituent and congressional pressures, and failure of consistent, knowledgeable action from top management.

A résumé of congressional actions from 1916-44 is contained in the Draper-Strauss Report of 1945, "Coordination of Procurement Between the War and Navy Departments," volume 1 (app. 9).

From 1945 to date there have been many additional congressional attempts (app. 9). Both Hoover Commissions which were created by Congress¹ spent much time and effort in the military supply management and related areas.

BONNER SUBCOMMITTEE

The Bonner subcommittee of the House Committee on Expenditures in the Executive Departments held extensive hearings on military supply management in the United States and around the world and issued three basic reports.²

After issuing House Report 1994, Chairman Bonner introduced a bill, H.R. 8130, on June 9, 1952, to accomplish these objectives:³

1. Set up an Under Secretary of Defense for Supply.
2. Abolish the impotent Munitions Board.
3. Transfer to the Secretary of Defense control over supply matters now vested in many boards, individuals, etc.
4. Create an efficient and well-trained supply corps to assist the Under Secretary to perform his duties.

¹ Commissions on Organization of the Executive Branch of the Government, February 1949 and 1955.

See also bibliography in "Report of Rockefeller Committee on Department of Defense Organization, Apr. 11, 1953," pp. 22-25.

Also "Organizing for National Security." A bibliography prepared for the Committee on Government Operations, U.S. Senate and its Subcommittee on National Policy Machinery (pursuant to S. Res. 115, 86th Cong.).

² H. Rept. 658, 82d Cong., 1st sess., "Federal Supply Management (Military and Related Activities)," June 27, 1951. H. Rept. 1994, 82d Cong., 2d sess., "Federal Supply Management (Overseas Survey)," May 23, 1952. H. Rept., 2330, 82d Cong., 2d sess., "Alameda Medical Supply Test (Federal Supply Management)," June 27, 1952.

³ See Congressional Record of June 9, 1952, pp. 6872 and 6873.

5. Give the Under Secretary proper control over appropriations for supply.

The bill was referred to the House Committee on Expenditures in the Executive Departments and early hearings were scheduled. The first witness was to be the Honorable Robert A. Lovett, Secretary of Defense. However, a jurisdictional problem arose and the chairman of the House Armed Services Committee asked that the bill be referred to his committee.⁴

The chairman of the House Armed Services Committee stated:

Mr. VINSON. I want to state to the distinguished gentleman from North Carolina that the subject matter of the bill is not in issue at this time; it is only a question of jurisdiction. If the Committee on Armed Services' request is granted, I know of no better witness, and the first one to be called, than the distinguished gentleman from North Carolina and other members of the subcommittee, and I can assure him that this subject matter will receive prompt consideration from the Committee on Armed Services.

Upon receiving assurances that the subject matter of the bill would be "promptly considered" its sponsors did not object to its re-referral and it was sent to the Armed Services Committee by unanimous consent. No action, however, was taken on the bill.

ACTION OF THE JOINT ECONOMIC COMMITTEE

Senator Paul H. Douglas of the Joint Economic Committee was very much interested in the bill and announced to the Senate⁵ his intention of offering the entire bill, H.R. 8130, as an amendment to the pending Department of Defense appropriation bill, H.R. 7391, for fiscal 1953. This bill was being handled on the floor of the Senate by Senator O'Mahoney who was chairman of the Joint Economic Committee and so was in the position to view the impact of military expenditures on the national economy. He assured Senator Douglas of his agreement with the intent of the proposed amendment but indicated the parliamentary situation where such a comprehensive legislative amendment to an appropriation bill would be subject to point of order.

O'MAHONEY AMENDMENT TO DOD APPROPRIATION BILL, 1953

So a compromise amendment was added to the bill.⁶ This has become known as the O'Mahoney amendment and reads as follows:

(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.

⁴ See Congressional Record of June 18, 1952, pp. 7542 and 7543.

⁵ See Congressional Record of June 28, 1952, p. 8396.

⁶ Sec. 638, Department of Defense Appropriation Act, 1953.

The full intent of the amendment was detailed in Senate Report 1861.⁷ One of the essential parts of the report 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. 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.

The O'Mahoney amendment and the report laid the foundation for real progress in common military supply. On September 5, 1952, the Office of the Secretary of Defense issued basic regulation 4000.8 required by the O'Mahoney amendment.

The regulation did not carry out the full intent of the law but dealt primarily with intradepartmental rather than interdepartmental aspects of supply management.

On December 3, 4, and 5, 1952, the Bonner subcommittee⁸ held additional hearings with respect to progress being made regarding implementation of the military supply regulations. At that time there was strong evidence of a conscientious desire on the part of top management in the DOD to carry out the intent of the O'Mahoney amendment and many substantial economies estimated to be at least \$2 billion had been achieved in a period of a few months. The Bonner subcommittee was assured that the feasibility test for the single management of medical and dental supplies and equipment at Alameda, Calif., had been successful and that the program would be applied to the other eight Army and Navy military medical supply depots.⁹

REORGANIZATION PLAN NO. 6 OF 1953

On February 17, 1953, the Sarnoff Commission issued a report¹⁰ pointing out the need for economies in the supply and service activities of the Defense agencies.

This was followed by the report of the Rockefeller committee¹¹ on April 11, 1953, which laid the foundation for the Reorganization Plan No. 6 which was submitted to the Congress by the President on April 30, 1953.¹²

⁷ See hearings of the House Committee on Expenditures in the Executive Departments, 82d Cong., 2d sess., Dec. 3, 4, and 5, 1952, p. 5, "Federal Supply Management (Implementation of Military Supply Regulations)."

⁸ Hearings of House Committee on Expenditures in the Executive Departments, "Federal Supply Management (Implementation of Military Supply Regulations)," 82d Cong., 2d sess., Dec. 3, 4, and 5, 1952.

⁹ H. Rept. 674, 86th Cong., 1st sess., "Military Supply Management (Single Manager Agencies)," Committee on Government Operations, July 15, 1959, pp. 12-14.

¹⁰ Sarnoff Commission report on manpower utilization in the armed services, 83d Cong., 1st sess., Feb. 17, 1953.

¹¹ Report of the Rockefeller Committee on Department of Defense organization, Apr. 11, 1953.

¹² Reorganization Plan No. 6 of 1953, hearings of House Government Operations Committee, June 17, 18, 19, and 20, 1953.

The President's message contained several hopeful statements:

Because we are not a military-minded people, we have sometimes failed to give proper thought to the problems of the organization and adequacy of our Armed Forces. Past periods of international stress and the actual outbreaks of wars have found us poorly prepared. * * *

Today we live in a perilous period of international affairs. * * *

We in the United States have, therefore, recently embarked upon the definition of a new, positive foreign policy. * * *

The first objective, toward which immediate actions already are being directed, is clarification of lines of authority within the Department of Defense so as to strengthen civilian responsibility.

Our second major objective is effectiveness with economy. Although the American people, throughout their history, have hoped to avoid supporting large military forces, today we must obviously maintain a strong military force to ward off attack, at a moment's notice, by enemies equipped with the most devastating weapons known to modern science. This need for immediate preparedness makes it all the more imperative to see that the Nation maintains effective military forces in the manner imposing the minimum burden on the national economy.

GENERAL EISENHOWER'S BALTIMORE SPEECH

Another event that had boded well for economy and efficiency in the supply and service areas in the DOD was the critical and convincing statement of General Eisenhower in a speech in Baltimore, Md., on September 25, 1952.

He indicated that we must have defense with wisdom and efficiency and that large savings could be made in the military budget without reduction of defensive power. He mentioned specifically that the duplication in supply matters between the Army and Navy had grown into triplication with the creation of the Air Force; that unity must be extended to the procurement and administration of all the costly material and equipment of modern warfare and that necessary unity which proponents of the National Defense Act of 1947 sought, had not been achieved.

General Eisenhower stated that the three services were going their separate ways and that this situation must be brought to an end (see app. 10 for full text of General Eisenhower's speech).

PREEMPTIVE PRESTIGE OF GENERAL EISENHOWER—SHORTCUT TO ECONOMY AND EFFICIENCY

The effect of General Eisenhower's great prestige on congressional committees is not generally understood. His reputation in military matters, even in fields foreign to his skills had the effect of deterring necessary investigations into areas under the stiff challenge of "who are you to go into this matter when a real expert will take care of it?" The point is illustrated in December 4, 1952, hearings¹³ by Congressman Hoffman, then soon to be chairman of the powerful Committee on Government Operations of the House of Representatives:

Mr. HOFFMAN. Now, I ask the Admiral, is it not your understanding that the President, as Commander in Chief of all the armed services, has authority not only to make recommendations but to force each service to comply therewith? Admiral Fox. Unquestionably.

¹³ "Federal Supply Management (Implementation of Military Supply Regulations)." Hearings held by a subcommittee of the Committee on Expenditures in the Executive Departments, House of Representatives, 82d Cong., 2d sess., Dec. 3, 4, and 5, 1952, pp. 174-175.

Mr. HOFFMAN. Then is there any reason, for example, why if we had a President who knew his business and who had the courage to follow the thought that he had, which would, in his opinion, secure economy and efficiency, the President as Commander in Chief, could not tell the armed services' representatives to do this, that, or the other, and force them to do it?

Admiral FOX. There is no question about it.

Secretary KIMBALL. Surely.

Mr. HOFFMAN. Now we will have as President a military man, General Eisenhower. He was Chief of Staff; was he not?

Secretary KIMBALL. Yes, sir; he was Chief of Staff.

Mr. HOFFMAN. Now, as President and Commander in Chief, will he not have authority over all of them?

Secretary KIMBALL. Yes, sir.

Admiral FOX. Yes, sir.

Mr. HOFFMAN. Is there any reason why he cannot, by order as Commander in Chief, tell the Army, the Navy, and the Air Force to do the things which he thinks would bring us economy and efficiency?

Admiral FOX. There is no question about it.

Mr. HOFFMAN. And, if that were done, would there be any need, in your opinion, for a congressional committee to sit here and study the subject and make recommendations?

Admiral FOX. No, sir.

Mr. HOFFMAN. And presumably, General Eisenhower, with his knowledge gained at West Point and all his years of experience, would know more about that than we would; would he not, naturally? I am trying to get a shortcut toward efficiency and economy and unification in the armed services' purchasing and in all their activities.

Admiral FOX. Responding to you, sir, it is perfectly reasonable and logical that he should, with all that background and experience, know enough to direct the Armed Forces of the United States.

Mr. HOFFMAN. And he has the authority to make them follow his recommendations; has he not?

Admiral FOX. There is no question about it.

Mr. HOFFMAN. That is all I have on that.

No doubt, the relative inactivity of the successor subcommittee in the military supply management area was due in part, at least, to the belief of the chairman of the full committee that a "shortcut toward efficiency and economy and unification in the armed services' purchasing and in all their activities" would surely come with the advent of the President-elect in the White House.

REVERSAL OF POLICY

Despite General Eisenhower's stated position on the need for economy and efficiency in supply matters in the Department of Defense and despite savings of at least \$2 billion that had been made in a few months' time under the O'Mahoney amendment in 1952,¹⁴ the new Secretary of Defense and associates, inexperienced in governmental matters, soon became prisoners to the Pentagon pros.

The Assistant Secretary of Defense (Supply and Logistics) notified (Nov. 13, 1953) the military departments that the supply systems study project (in which priority attention was to be given to the feasibility of one service performing procurement, distribution, and issue of classes of common items of supply for all services) was discontinued and that subsequent emphasis was to be placed on supply management improvement within the respective services.¹⁵

¹⁴ "Federal Supply Management (Implementation of Military Supply Regulations)" hearings held by a subcommittee of the Committee on Expenditures in the Executive Departments, H.R. 82d Cong., 2d sess., Dec. 3, 4, 5, 1952, pp. 10-11; 85, 99, 121, 196, 206, 208, 270.

¹⁵ Staff report, p. 39.

On July 27, 1954, the Assistant Secretary of Defense (Supply and Logistics), T. P. Pike, notified the Riehlman subcommittee of the House Government Operations Committee that the study of feasibility of integrating common supplies on a commodity basis would be discontinued since this approach was considered a fragmentary approach to supply management problems.¹⁶ Mr. Pike stated his reasons why supply systems studies should be discontinued, why the use of stock funds would facilitate cross-servicing, and why the Alameda test had certain weaknesses that disqualified it. These weaknesses incidentally were built into the test by its opponents during the long period from July 17, 1951, and March 15, 1952, when the ground rules for the test were slowly and painfully evolved. It was tragic that these planned weaknesses became the excuse for killing the test. It would have been so much more in the public interest to have corrected the weaknesses than to have murdered the patient.

ALAMEDA MEDICAL TEST PLAN DISCONTINUED

Finally on November 23, 1954, a DOD news release announced: "Army Alameda Medical Depot Transfers to Navy; Medical Test Ceases."¹⁷

The standard sop was added and some valuable lessons had been learned for future use. This action caused a storm of congressional and public protest and many Members of Congress wrote to the Secretary of Defense¹⁸ (app. 11).

The second Hoover Commission Task Force Report on Federal Medical Services had this to say:¹⁹

Our study of the entire Alameda test leads us to the conclusion that this unified operation has been abundantly successful, efficient, and economical. The task force feels that there should be more operations of this nature within the Department of Defense. Alameda has conclusively shown that a coordinated storage and distribution system for medical supplies can function for the Army, Navy, and Air Force.

An earlier study of the Alameda test by the Munitions Board reached the same general conclusions.

The task force regrets that, despite the success of the Alameda operation, orders have been issued to end this highly successful operation before July 1, 1955. We deplore this decision. More Alamedas should be in the making, not less.

The Secretary of Defense was forced by public opinion to initiate a similar program for medical supply management under another name about year and a half later. This time under the management of the Navy which had relentlessly resisted the Army Alameda test. It is important to note that both tests proved to be successful thus attesting to the feasibility of common management of common supply when given top management support.

HAMBURGER HEARINGS

In May 1955 the House Government Operations Committee under the chairmanship of Congressman Dawson held hearings on the Hoover reports on subsistence and clothing and revealed the wasteful

¹⁶ Staff report, pp. 39 and 40; 232-234.

¹⁷ *Ibid.*, pp. 234-235.

¹⁸ *Ibid.*, pp. 232-236.

¹⁹ Task force report, February 1955, on Federal medical services, pp. 64-65.

management of these activities in the DOD.²⁰ Criticism of the DOD disregard for the intent of Congress grew.

Majority Leader McCormack wrote to Secretary Wilson on October 24, 1955, stating examples where acts of Congress were being bypassed by the DOD, specifically the O'Mahoney amendment and stated—

I should appreciate learning of any plans underway which are designed to carry out the full intent of the O'Mahoney amendment.²¹

RE-REVERSAL OF POLICY

The criticisms from Members of Congress, the press, the Hoover Commission representatives and the hearings of the Dawson subcommittee on the unsavory subsistence and clothing operations in the DOD caused Secretary Wilson and his aides hurriedly to come up with a new name for an old idea. This was the single manager concept for management of common classes of items.

On November 7, 1955, 1 year after the demise of the Alameda test, a DOD news release rang out the glad tidings:²²

NEW UNIFIED FOOD SUPPLY SYSTEM ANNOUNCED BY DEFENSE DEPARTMENT

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 * * * 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 * * * the adoption of this single-managed supply system for subsistence items is in line with some of the objectives of the Hoover Commission—

The advantages of the single manager system were outlined and joint-service operations, which once were lauded were now condemned as being unsound.

EXPANSION OF SINGLE MANAGER SYSTEMS

On December 13, 1955, Majority Leader McCormack wrote to Secretary Wilson pointing out the inconsistencies in his recent positions:

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.

After 4½ years, subsistence has been substituted for medical supply for another testing, and in Mr. Lanphier's words, paraphrasing the 1951 directives: "We are also currently considering the feasibility of applying this concept to other commodity areas."

* * * 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.²³

²⁰ House Government Operations Committee hearings on Commission on Organization of the Executive Branch of the Government (food and clothing report) May 5, 10, 11, 12, and 13, 1955. (Rept. No. 2013, 84th Cong.)

²¹ Staff report, pp. 223-225 (see also hearings, p. 480, Congressman Curtis' letter to Secretary Charles E. Wilson, Jan. 19, 1955.)

²² Staff report, p. 225.

²³ Staff report, pp. 223-225.

On January 31, 1956, Secretary Wilson addressed a memorandum to the Secretaries of the Army, the Navy, and the Air Force:

I have decided that the time has come when we should extend the single manager plan to cover additional common use items and common service activities. * * *

It is my intention to have a basic organizational pattern that can be extended as rapidly as possible in the supply field to petroleum, medical-dental, clothing-textiles, photographic equipment, and in the service field to traffic management. * * *

The successful implementation of this plan will require your full cooperation and that of the Departments under your control.

The clothing-textile single managership was assigned to the Army in May 1956, and medical materiel once in the Army went to the Navy the same month. Petroleum was assigned to the Navy in July 1956.

The military traffic management service was assigned to the Army in May 1956, and sea transportation to the Navy in the same month. Air transportation was given to the Air Force in November 1956.

LULL IN THE PROGRAM

After 1956 there was a lull in the single manager program and as stated above (p. 2), different opinions emanated from responsible officials in the Pentagon as to the worth of the program. Progress at best was slow. Members of Congress who had long been interested showed their concern by developing what became known as the second O'Mahoney amendment to the DOD appropriation bill for fiscal 1958. This amendment, which was unanimously passed by the Senate as section 633 after 2 days of debate in which Senators O'Mahoney, Douglas, Carroll, and Lausche took leading roles, provided:²⁴

SEC. 633. Section 638 of the Department of Defense Appropriation Act, 1953, is amended to read as follows:

"Sec. 63S. (a) Notwithstanding any other provision of law, the Secretary of Defense shall take such actions as are necessary to achieve economy, efficiency, and effectiveness in noncombatant services, activities, and operations through the elimination of overlapping, duplication, and waste within and among the agencies of the Department of Defense.

"(b) The Secretary of Defense, in order to provide for the effective accomplishment of this section, is hereby authorized from time to time to transfer, combine, and coordinate noncombatant services, activities, and operations within the Department of Defense.

"(c) The Secretary of Defense is further authorized to transfer such property, records, and personnel, and such unexpected balances (available or to be made available) of appropriations, allocations, and other funds of the military departments as he deems necessary to carry out the provisions of this section."

On July 8, 1957,²⁵ in endorsing the second O'Mahoney amendment, House Majority Leader McCormack made this statement:

The new amendment requires that the Secretary of Defense shall eliminate overlapping, duplication, and waste not only in the supply systems within and among the departments, but also with respect to other noncombatant services, such as, for example, transportation service, commissary service, PX service, accounting service, engineering services, and so forth. The scope of the second O'Mahoney amendment is, therefore, much broader than the first and, in addition, is a directive to the Secretary of Defense.

While subsection (a) of the new O'Mahoney amendment makes it mandatory that the Secretary of Defense achieve economy, efficiency, and effectiveness through the elimination of overlapping, duplication, and waste, the subsections (b) and (c) authorize him to implement the basic intent of subsection (a) by

²⁴ See Congressional Record, July 1 and 2, 1957, pp. 9603-9646, 9732-9764.

²⁵ Congressional Record, July 8, 1957, pp. A5381-A5383.

transferring, combining, and coordinating noncombatant services, activities, and operations and such property, records, personnel, funds, and so forth, as are necessary to achieve the intent.

Majority Leader McCormack also pointed out in his remarks that Secretary Wilson was not in agreement with the President as to the need for more unification in the DOD. The Secretary was of the opinion that the decentralized supply and service operation of General Motors was the type that should be followed in DOD.

Congressman McCormack also stated:

I have reviewed General Eisenhower's statements on the need for more unification in supply and service activities in 1945, 1946, 1947, 1949, while a candidate in 1952, and since he has been President. I cannot help but believe that his true position is that which he stated to the Woodrum Committee on June 2, 1945, "efficiency must be obtained with maximum economy. This means expensive duplication must be ruthlessly eliminated."

The House of Representatives failed to adopt the second O'Mahoney amendment and it was eliminated by the conferees with this statement:

This language was stricken with the understanding that the appropriate legislative committees have the matter under consideration and that legislation will be forthcoming.²⁶

But the understanding of progress in the making once more was based upon hope rather than reality for again nothing happened.

THREE MILITARY DEPARTMENTS SEPARATELY ADMINISTERED

The hopes of those who endorsed the National Security Act of 1947 that a strong Secretary of Defense would be able to achieve the desired economy, efficiency, and effectiveness in DOD were soon dashed upon the rocks. Secretary of Defense Forrestal who as a Navy partisan from 1944 to 1947 had insisted on maintaining the autonomy of the Navy²⁷ was in the unenviable position of having to drink from his own chalice when he became Secretary of the tripartite organization.

At the time of his departure from office, Secretary Forrestal advised the Senate Armed Services Committee that the act contained "weaknesses and inconsistencies" and that the authority of the Secretary was "vague, confusing, and specifically limited by the provision which reserves to the respective departmental Secretaries all powers not expressly conferred upon the Secretary of Defense."²⁸ And before his death Secretary Forrestal admitted that he had been "hoist with his own petard."

DEPARTMENT OF DEFENSE REORGANIZATION ACT OF 1958

Despite attempts to strengthen the National Security Act of 1953 by means of Reorganization Plan No. 6, heavy pressure continued for still more positive action, especially in supply and service activities.

Following President Eisenhower's state of the Union message to the 2d session of the 85th Congress in which he called for "real unity" in the Department of Defense, the President submitted to Congress on April 3, 1958, his proposed defense reorganization plan. A primary purpose of this reorganization plan was to strengthen the authority of the Secretary of Defense over the military departments. The Presi-

²⁶ Conference Rept. No. 841, July 23, 1957, 85th Cong., 1st sess., p. 6.

²⁷ "The Forrestal Diaries," p. 167.

²⁸ Senate Armed Services Committee hearings on S. 1269 and S. 1843, Mar. 24, 1949, p. 8.

dent stated in his message that one effect of the "separately administered" concept of the National Security Act was to "impede such techniques for the increased efficiency and economy as the single manager plan" in the Department of Defense.

M'CORMACK-CURTIS AMENDMENT

The Congress not only modified the "separately administered" clause but it also adopted the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958. This legislation removed any possible doubt as to the authority of the Secretary of Defense to integrate supply and service functions when it would be in the best interest of Government. Moreover, the amendment was a renewed expression of the intent of Congress that positive and continued action be taken by the Secretary of Defense to eliminate duplication and waste in military supply and service programs and to develop ways to bring about efficient performance in this area.

The amendment reads:

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 paragraph, any supply or service activity common to more than one military department shall not be considered a "major combatant function" within the meaning of paragraph (1) hereof. (See app. 12 for text of par. (1).)

INTENT OF M'CORMACK-CURTIS AMENDMENT

House Majority Leader McCormack carefully explained the intent and the scope of the amendment he introduced.²⁹ This can become a most important piece of legislation as it has been estimated that up to 60 percent of the annual DOD appropriation is for supply and service activities.

One of the most important aspects of the amendment is that it definitely removes supply and service activities common to two or more departments from being categorized as "major combatant functions" and hence subject to veto action by the military departments. So for the first time the Congress had given to the Secretary of Defense specific authority to organize and operate common supply and service activities without being subject to compromise or a veto by separately administered departments autonomous in all functions whether or not directly or remotely related to major combatant functions.

This specific congressional language clearly gave the executive branch of the Government a charter for positive action.

LAG IN USE OF AMENDMENT

Though the Department of Defense Reorganization Act was signed on August 6, 1958, and everyone seemed to favor the McCormack-Curtis amendment, progress was slow in implementing it. Accordingly, on January 15, 1959,³⁰ Senator Douglas requested information from the Secretary of Defense as to (1) the scope of the amendment in the Secretary's judgment, (2) what had been done to implement it, and (3) what was planned for its implementation. (See p. 2 for subsequent action.)

²⁹ See Congressional Record, June 12, 1958, pp. 9927-9932.

³⁰ Staff report, pp. 210-211.

PART III-C

CONGRESSIONAL EFFORTS TO IMPROVE SUPPLY MANAGEMENT IN THE DEPARTMENT OF DEFENSE

HISTORY OF INTEGRATION OF COMMON CLASSES OF COMMODITIES

GENERAL

The history of integration of the management of common classes of commodities within the Army and the Navy and among the three departments has been one of start and stop, on and off, for many years. It reflects the contending philosophies of economy and efficiency versus service autonomy. The two forces are ever present but the latter has had the upper hand. When a prime objective of a department is to remain autonomous, it is not difficult to understand that it endeavors to create and perpetuate differences.

Commonality leads to unification. Common things can be managed in a common way. This explains, in part, the long and costly task of preparing a uniform catalog. Though the President himself ordered that such a catalog be developed in 1945 and Congress enacted special legislation for the purpose,¹ it is only now being completed at a cost of \$200 million. Likewise, in the development of standards and specifications there has been a great amount of foot dragging. It is apparent that two identical items can be procured, stored, inventoried, issued, and maintained in a common way much more economically and efficiently than can the different items.

Special items that vary but slightly in size, finish, color, design, etc., require special attention and treatment in every aspect of supply management.

General Eisenhower emphasized the benefits of unity when he stated:

* * * through real integration, forces of the several arms and services multiply rather than merely add their separate tactical effects. (See pp. 1, 66.)

Conversely, the fruits of disunity are a mass of organizations, committees, conferences, paperwork, etc., which generate more work than the job itself. A good illustration is that provided by Secretary Stimson who stated that during World War II it took 100 committees to bridge the gap between the Army and the Navy. Today with three departments and four services there is a geometric increase so that we have approximately 557 boards, committees, councils, etc.²

DRAPER-STRAUSS REPORT (FEBRUARY 1945)

In an endeavor to obtain greater coordination of procurement between the War and Navy Departments, the Secretary of the Navy, Hon. James A. Forrestal, and the Undersecretary of War, Robert P.

¹ The Defense Cataloging and Standardization Act of 1953 (66 Stat. 318; 5 U.S.C. 173).

² Hearings, pp. 80-106.

Patterson, instituted the study of common classes of commodities where apparent need of coordination and procurement were desirable. A series of individual studies was undertaken under Col. William H. Draper, Jr., General Staff Corps, and Capt. Lewis L. Strauss, U.S. Naval Reserve. The final report³ listed the results of separate studies on medical supplies and equipment, subsistence supplies, standard stock items, textiles, clothing and shoes, and athletic equipment; fuels and lubricants; small boats and internal combustion marine engines and parts; ordnance materiel; packing and packaging; electronic equipment; construction machinery and mechanical equipment; automotive equipment; chemical warfare material; aircraft equipment.

Of particular interest was the development toward a single agency in two fields:

1. Medical supplies and equipment.
2. Textiles and clothing.

On December 22, 1944, Secretary Forrestal and Secretary Patterson, for the Navy and Army respectively, established a joint purchasing agency to procure all medical and surgical supplies for the two departments.

On January 6, 1945, a similar memorandum of agreement was signed by the same parties for the establishment of a joint procurement office for textiles and clothing. Both the medical and textile and clothing agencies were located in New York City.

In all, some 17 common commodity classes were listed for eventual treatment in the same way. The basic plan was to bring the offices physically together as a first step.

Genuine progress was made with respect to medical and textile and clothing coordination during the war and shortly thereafter.

MEDICAL SUPPLY SITUATION IN 1951

But the seeds of disintegration were deeply planted and very viable. By the spring of 1951 the Bonner subcommittee which was studying military supply management found that there was some coordination of medical procurement with both the Army and the Navy in the same building, on different floors, with different stock status report periods, different accounting systems, etc., but much remained to be done.

There was no coordination with respect to distribution. The Joint Purchasing Agency procured medical and dental supplies and equipment which were shipped to five Army depots and five Navy depots for distribution to the ultimate users. (See p. 68.)

In Oakland, Calif., the Army had a large medical supply depot on one side of the street and the Navy had a similar facility on the opposite side of the street.

In distribution there was inexcusable crosshauling and duplication and waste. The Naval Station at Pensacola, Fla., got its medical supplies from Edgewater, N.J., bypassing nearer Army sources at Atlanta. Conversely, the Army facility at Fort Dix, N.J., bypassed

³ "Coordination of Procurement Between the War and Navy Departments," vol. 1, final and interim reports, February 1945. See also background material on development of the single manager plan in H. Rept. 674, 86th Cong., 1st sess., "Military Supply Management (Single Manager Agencies)," pp. 10 ff.

the Navy at Edgewater and got its supplies from Schenectady, N.Y. The same criss-crossing nationwide made an enormous overlay of spider webbing.

The Bonner subcommittee issued its strong report (see p. 63) and announced hearings beginning July 19, 1951. On July 17, 2 days before the scheduled hearings, the Department of Defense issued a directive on supply systems proclaiming the initiation of a feasibility test to determine if one service could buy, store, and distribute common commodities for all three services. The first commodity group to be tested was medical supplies and equipment with other classes soon to follow.

Eventually, on March 15, 1952, a test was actually started at Alameda, Calif., and was to continue for a 6-month period or to the end of August 1952. The Bonner subcommittee, well aware of the delay and strife that had taken place in initiating the test, decided to hold hearings at Alameda on the operation of the test. This was done on August 21, 1952.

In brief, the hearings on August 21, 1952, revealed that the test had been successful, the Army had done a good job running it, the Air Force was pleased, but the Navy was glum. There were many things which could have been done to make the test more successful—the use of standard forms, the use of one stock fund instead of each service owning the stocks used in the test, the use of better requisitioning procedures in order to save time and effort, etc.

As stated above, the test was found to be successful; in fact, so successful that it was opposed vehemently by the Navy, though the Army and Air Force were in favor of its continuation and broader application. Finally in November 1954 the test was completely abandoned. Then in May 1956 a similar but broader program called a single manager for medical materiel was established under Navy management.

LOW EBB IN INTEGRATION OF COMMON COMMODITIES

At the end of 1954 the opponents of supply integration were in the saddle. The ASTAPA project had been condemned and abandoned. The Army clothing buying office had been moved on July 1, 1954, from New York to Philadelphia, thus ending the "proximity" collaboration set up in 1945 through the housing of both Army and Navy procurement offices in the same building.

The Alameda medical supply test had been ordered closed and soon was disjointed, with the Army and Navy at great expense moving their belongings from the common operation at Alameda, Calif., to Stockton and Oakland, respectively.

The many other common commodity classes which were to be "given priority study to determine 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 storage" and were not studied; and the Supply Systems Study Group which was established for the purpose was itself dissolved with the reversal of policy in the Wilson era. 1953-54.

CLOTHING, TEXTILES, AND APPAREL

By 1951 the coordinated clothing and textile project in New York City had disintegrated into a "collaborative" effort. This means simply that the Army and Navy procurement personnel for essentially the same or similar items were supposed to collaborate with each other before buying. They were on different floors of the same building but their collaboration was marked more by the avoidance than by the performance. The system lacked overall control, direction, and was meaningless. The proximity of the two offices emphasized the need for consolidation.

Criticism by the Bonner subcommittee and also the Hébert subcommittee in 1952 led to the establishment of the Armed Services Textile and Apparel Procurement Agency (ASTAPA). This was a joint agency staffed with personnel from the three departments—Army, Navy, and Air Force. And, before it got off the ground it was killed by service resistance. The history of this ill-fated agency is well documented in the Hoover Commission Task Force Report on Food and Clothing.⁴

As with Medical Supply, a single manager was established for clothing-textile items in May 1956 but under Army guidance.

PROGRESS IN OTHER COMMON COMMODITY CLASSES

The Draper-Strauss Report of 1945 indicated some 17 major common commodity classes that were ripe for consolidation.

In 1951, Pentagon officials momentarily stimulated by the Lovett directive of July 17, 1951, made some nice promises.⁵

Mr. BONNER. What program do you plan to carry out, responsive to Secretary Lovett's directive of July 17, 1951?

General McNARNEY. Well, we will take the medical service—

Mr. BONNER. Is that the plan or do you have another plan?

General McNARNEY. That is the plan to carry that out. We have three or four more commodity areas into which we want to examine. For instance, in addition to the medical area, we are going to go into ammunition, automotive transportation, subsistence, and compare them with what we are now doing with respect to petroleum products. Petroleum products is a joint operation which was instituted during World War II, and has worked very well. It is not exactly cross servicing, but it is the nearest thing to cross servicing which is a complete package.

Mr. BONNER. What specifically are your plans for the medical supplies study? I think you know that this committee would like to see this expedited. Can you set a deadline for completion of the study?

General McNARNEY. We have completed a program which does the preliminary organizational work for setting up the project. It has been approved by the Management Committee, and it is being presented to the Munitions Board this morning.

Mr. BONNER. Do you plan to do anything about clothing, textiles, and so forth, electronics and the other areas covered by the Draper-Strauss report of 1945?

General McNARNEY. Well, the various areas we have in mind now, one of them is subsistence, one is ammunition, one is automotive transportation, clothing is one on which a considerable amount of work has already been done, we will pick up the work which has been done and complete it.

⁴ Hoover Commission, "Task Force Report on Food and Clothing, April 1955," pp. 129-130 (see also staff report, pp. 141-144, and House "Report on Food and Clothing").

⁵ House Committee on Expenditures in the Executive Departments, hearings on "Federal Supply Management (Military and Related Activities)," July and August 1951, pp. 197 and 232.

Mr. BONNER. Are similar studies planned for all the commodities covered by the Draper-Strauss report of 1945?

Mr. MCBRIAN. Yes, all of those, in fact, right through the commodity group, is the plan, until we have run the entire gamut.

Mr. SMALL. The major classes, not the minor ones.

Mr. MCBRIAN. There are 17 major ones.

To date the following single manager plans have been established.

Commodity	Date of assignment	Single manager assigned	Date of charter
1. Subsistence.....	November 1955.....	Secretary of the Army....	May 3, 1956
2. Clothing, textile.....	May 1956.....	do.....	May 4, 1956
3. Medical materiel.....	do.....	Secretary of the Navy....	Do.
4. Petroleum.....	July 1956.....	do.....	July 24, 1956
5. Military traffic management.....	May 1956.....	Secretary of the Army....	May 28, 1956
6. Sea transportation.....	do.....	Secretary of the Navy....	Dec. 7, 1956
7. Air transportation.....	November 1956.....	Secretary of the Air Force.	Aug. 10, 1960
8. Handtools, administration, and housekeeping.....	January 1960.....	Secretary of the Army....	Do.
9. Hardware, paint, and metal bars, etc.....	do.....	Secretary of the Navy....	Do.
10. Construction.....	May 1960.....	Secretary of the Army....	(¹)
11. Automotive supplies.....	do.....	do.....	(¹)

¹ Not issued.

NEED FOR IMPROVEMENT IN "SERVICE ACTIVITIES"

Though supply activities comprise the largest part of the defense budget and offer the largest possible single activity where economy and efficiency and effectiveness may be achieved, there are many service activities which are overlapping and duplicative to a large extent.

Congressman McCormack named some of these in outlining the purposes or intent of the McCormack-Curtis amendment to the DOD Reorganization Act of 1958 (Public Law 85-599).

The following were listed: ⁶

Procurement, warehousing, distribution, cataloging, and other supply activities, surplus disposal, financial management, budgeting, disbursing, accounting, etc., medical and hospital services, transportation—land, sea, and air—intelligence, legal, public relations, recruiting, military police, training, liaison activities, etc.

While there has been some progress in the common supply area, and a beginning in long-line communications,⁷ there are many areas that have not been explored or only partially explored. One potentially fruitful area in the view of experts is in the establishment of a single contract audit agency as recommended by a joint statement from three well-known consulting firms. They state in part:

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.

A single contract audit agency would offer definite possibilities for better utilization of manpower, improved recruiting and training, more efficient operation, reduced overhead costs, elimination of different instructions and policies, improved communication, and a more uniform approach in dealing with industry. Internal auditing should remain in the military departments.

(See app. 13 for full text of joint statement.)

⁶ Congressional Record, June 12, 1958, p. 9929.

⁷ DOD Directives Nos. 4600.2 dated May 12, 1960, and 5105.19, dated May 12, 1960.

The statement as to better utilization of manpower, improved recruiting and training, more efficient operation, reduced overhead, etc., in the case of consolidated contract auditing applies with equal force to the many supply and service activities common to two or more agencies. Furthermore, the Secretary of Defense is given ample authority to deal with each and all of them under the McCormack-Curtis amendment to the DOD Reorganization Act of 1958.

The list of single-manager plans is imposing and misleading. They cover only a part of the total items. Analysis shows that much needs to be done to improve the operation of the plans. In the fields of clothing-textiles and medical the systems need improvement in requirements determination and standardization. The petroleum plan is actually a single-purchase assignment. The handtool and hardware plans are scarcely underway.

The construction and automotive plans are not yet chartered and cover only supplies and parts and not the expensive machines, vehicles, and other end items.

Some of the plans are relatively small and cover only a few thousand items. In the offing is the development of a plan or plans for the large (estimated 750,000 to 990,000 items) electrical/electronic equipment and supply group. This group is currently very important to many activities and projects, including the development of modern weapons.

Because of its importance to defense and space work, Majority Leader McCormack wrote to Comptroller General Campbell on January 30, 1959 (app. 14 for full text):

* * * The findings and conclusions of your excellent report (B-133036 on U.S. Army Signal Supply Center, Yokohama, Japan) indicate a deficiency in the supply system itself in the Signal Corps with respect to requirements determination, procurement, overall inspection and review, and inventory control methods and procedures.

Nor can I help but wonder as to the adequacy of the overall Department of Defense supply-demand control system. * * * Does anyone relate overall inventory with requirements before procurements are made? Is there concurrent buying and selling?

Would it be possible for your agency to extend the scope of its investigation to all facets of supply management of electronic supplies and equipment within the Department of Defense? This would mean a study as to the adequacy of the requirements determination, procurement, inventory control, utilization of all available assets before procurement, distribution of stock, and disposal of excess or surplus property.

I should also appreciate recommendations which you may be able to make for improvement of supply management across the board in the Department of Defense as contemplated by the legislation to which I refer.⁸

As the result of the Majority Leader's request, the GAO initiated a review of supply management of electronic supplies and equipment within the Department of Defense. Its report, B-133313, was issued on May 31, 1960.

In general, the report indicated a lack of overall direction and control that adversely affected efficiency and effectiveness of supply operations. It reported unnecessary purchasing and inadequate supply support resulting from failure to consider and obtain needed items available in long supply in other services. It found costly duplica-

⁸ Staff report, pp. 162-165.

tion and overlapping supply-management functions and organizations. In one instance components valued at \$20 million which were required by one service were available for transfer from another service. The GAO concluded that immediate steps toward improvement were necessary.⁹

Shortly before the GAO report was concluded, the DOD advised that it was instituting a study in the electrical/electronic area. This study is now pending and due to be issued, according to latest reports, in November 1960. Needless to say, the services are extremely interested in this area and there is considerable jockeying for its control. Strong and decisive action will be required by top management to insure the issuance of a report and its implementation.

⁹ For review of study see H. Rept. 2042, 86th Cong., 2d sess.

PART IV

REORGANIZING SUPPLY AND SERVICE FUNCTIONS IN THE ARMY

Contrary to common belief, the Army does not have a supply system nor only one for each of the seven technical services.

It has several groupings of supply systems, including the Continental United States depots (CONUS), single managers, oversea depots, retail inventory control points and station supply systems. Control of these groups is scattered.

Supply responsibility (determining how much to buy, where to store it, etc.) is also widely diffused. Basic decisions are scattered among 21 stock fund inventory control points, CONUS depots, oversea commands, other military departments, and various CONUS Army commands.

In the final report of the Army Service Forces on July 1, 1947,¹⁰ it is stated:

At the time of Pearl Harbor, the internal organization of the War Department was antiquated and cumbersome. Its form was not suited for the waging of a major war. Thoughtful military men knew this and for years had worried about it.

Logistic activities were especially diffused and uncoordinated. They were spread through six supply and eight administrative services.

To correct the situation, the President by Executive order reorganized the War Department on March 9, 1942, and created three major commands, air, ground, and service, defense commands and oversea forces. The Army Service Forces, at first called the Service of Supply, was made responsible for administrative, supply (including procurement), and service activities of the War Department as a whole.

The Army Service Forces rendered outstanding service but at the end of the war it was found expedient to inactivate it and to restore to the Army Technical Corps their prewar status.

General of the Army, Dwight D. Eisenhower, Chief of Staff of the U.S. Army at the time of the inactivation ceremonies of the Army Service Forces on June 10, 1946 stated:

It is true, gentlemen, that I was in command of the organization that was your principal customer overseas, and because of that relationship to this ASF I am tempted to roam around a little bit, in my time allotted me here, both in the war and through what has happened since, so if you find my remarks a bit incoherent, at least as far as sequence is concerned, don't take it too seriously. I will try to connect it up in some form or another.

In the first place, I think that too often the ASF in providing some index by which we could measure its own accomplishment has stopped far short of the truth, I have seen its accomplishments measured in the tons of supplies laid

¹⁰ "Logistics in World War II," final report of the Army Service Forces, p. 22.

down in England and Africa, and it is true that that accomplishment alone was something close to the miraculous—the bombs, the shells, the guns, everything that he could think of we had. The only question we were ever asked was, "What do you want, and when do you want it? Don't confuse us, because when we start it's surely coming." It did.

As one special example of the efficiency of your organization in meeting an urgent emergency request for supplies I quote or cite that of the 5,400 trucks you shipped me almost out of the clear sky somewhere about February 1943. The only comment that I later heard with respect to your achievement, and which by the way won the African campaign, was that if I was going to ask next for the Pentagon Building, please give a week's notice.

Then General Eisenhower added after making these commendations:

Now, I can well understand the sense of disappointment, or even deeper emotion, as you see your establishment partially disbanded—let's say at least in name. But don't forget this, it is impossible in a democracy to keep always in time of peace an Army that merely has to expand in war in its form of command, and everything else; it cannot be done. Economy becomes the watchword, not only in dollars, but in men. Men have to carry dual loads. Moreover, the territorial organization of your country is not necessarily the same for war as it is for peace. In war you have one job to get men together to train them and send them out of the country and supply them all at the same time, but you have an entirely different one in peace.

After long study the consensus of opinion is that the organization toward which we are now going will preserve the lessons you have taught us, obtain for us the more in economy, and I should like to point out, under this new system, be more quickly capable of being transformed again into an Army Service Forces in time of an emergency than was the case in 1942.

It was much easier in 1946 to inactivate the Army Service Forces than to reorganize it for the next emergency. The history of the Army Service Forces illustrates the difficulty in reorganizing institutions of great strength which have strong organizations, industries, and constituencies interested in their continuation. Necessary reorganization may be as painful as "backing into a buzz saw" but deferral until an emergency arises may lead to critical injury.

General Eisenhower's statement to the effect that the experience learned through the operation of the Army Service Forces was great and that it would be possible to more quickly reorganize in case of another emergency is very interesting but at variance with the statement he made on June 2, 1945, when he indicated that—

* * * 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.

He also stated:

* * * 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.

This statement consistent with the military adage, "We should provide in peace what we need in war" and applicable in 1945 when the speed of attack was a few hundred miles per hour, would be many times more so today when the speed of destruction is measured as so-many times the speed of sound. The flight of a missile doesn't permit much time for compromise and reconciliation of prejudiced points of view on organization and logistics. The protective cushion of space which bought us time in 1917 and again in 1941 has been

demolished by a fast-moving technology. If we are not ready should the gong sound again, we likely never will be.

SECRETARY LOVETT'S BUZZ SAW LETTER

On November 18, 1952, Secretary Lovett, in a letter to President Truman, indicated the diffused and disorganized nature of the Army Technical Corps as follows:

As an indication of one area in which modernization and improvement appears to be needed, consider the technical services organization in the Army. There are seven technical services in the Army—Corps of Engineers, Signal Corps, Quartermaster Corps, Medical Corps, Chemical Corps, Transportation Corps, and Ordnance Corps. Of these seven technical services, all are in one degree or another in the business of design, procurement, production, supply distribution warehousing, and issue. Their functions overlap in a number of items, thus adding substantial complications to the difficult problem of administration and control.

It has always amazed me that the system worked at all and the fact that it works rather well is a tribute to the inborn capacity of teamwork in the average American.

One result of this type of organization is to form a service on the basis of profession rather than on the basis of its function. In other words, let us say that civil engineers in the Signal Corps; mechanical, industrial, hydraulic, ballistic engineers are in Ordnance, etc.

A reorganization of the technical services would be no more painful than backing into a buzz saw, but I believe that it is long overdue. I have a memorandum outlining one method of reorganization which looks promising. The study is recent and was completed in September 1952.¹¹

SECRETARY OF THE ARMY ON REORGANIZATION

The Secretary of the Army's 1954 plan for reorganization contained a significant statement about the insufficient recognition of logistics, or support, in the actual test of war:

"For both major wars fought in this century, the Army has had to change its organizational structure radically in order to perform under wartime conditions. Each time the primary weakness was in the logistics area."¹²

GENERAL CONCLUSION

It is evident that the Army supply systems continue to be diffused and disorganized within themselves to say nothing of the overall disorganization that exists among the Army, Navy, and the Air Force.

REORGANIZING SUPPLY AND SERVICE FUNCTIONS IN THE NAVY

There is a close parallel in the situation which prevailed among the eight bureaus of the Navy at the time of the establishment of the Bureau of Supplies and Accounts and that existing among the numerous military supply agencies at the present time.

Excerpts from pertinent reports made in 1894 and 1896 illustrate the point.

¹¹ For full text see hearings of House Committee on Expenditures in the Executive Departments of Dec. 3, 4, and 5, 1952, on "Federal Supply Management (Implementation of Military Supply Regulations)," pp. 348-355.

¹² "Secretary of the Army's Plan for Army Organization, June 14, 1954." Commission on Organization of the Executive Branch of the Government, "Business Organization of the Department of Defense, a Report to the Congress," June 1955, p. 8.

The following extracts from a report made by Secretary of the Navy Herbert in 1896 indicates the confused state of the Navy in matters of supply responsibilities before purchase, care, and issuance of Navy supplies were charged to the Bureau of Supplies and Accounts:¹³

The general-storekeeper system was established in the Navy 10 years ago. Prior to that time the eight bureaus (of the Navy Department) acted independently of each other in the matter of purchases, and had different methods of purchasing, keeping accounts, caring for and issuing articles under their cognizance. This resulted in many differing systems of accounts, and also, as each bureau necessarily kept many articles in stock, in large and unnecessary accumulations of stores, bureaus often purchasing for their own use articles, large stocks of which were at the time lying idle in the storehouses of other bureaus. Secretary Whitney concentrated the entire system of purchasing for the Navy under the Paymaster General, and established the general-storekeeper system, whereby all articles on hand, no matter under what bureaus, were consolidated for general use and placed under the control of the Bureau of Supplies and Accounts, which was held responsible for their purchase, care, and issuance. This order naturally encountered much resistance and may be expected to be more or less opposed as long as the bureau system obtains. Each chief is tempted to insist upon his right to purchase, upon the plea that he knows better than any other just what he needs.

Later in the report, Mr. Herbert quoted part of a similar report made in 1894:¹⁴

There is still a tendency on the part of some at least of the many sources of authority still existent in the Department to reassert their lost dominion over supplies and accounts, but it is not believed that any Secretary will ever find it advisable to yield to such demands.

The situation which exists today among the numerous supply services in the Army, Navy, Marine Corps, and Air Force is a great magnification of that described by Secretary Herbert in 1896 among the eight Navy bureaus.

¹³ Annual Report of the Secretary of the Navy for the Year 1896, pp. 30-31.

¹⁴ *Ibid.*, p. 31.

APPENDICES

APPENDIX 1

QUOTATIONS FROM JOINT ECONOMIC COMMITTEE REPORTS RELATING TO THE EFFECT OF MILITARY PROCUREMENT ON THE ECONOMY

* * * The inescapable fact is that more than 76 percent of the huge Federal budget of \$42 billion for the coming fiscal year is being expended for wars, past, present, and future, and for foreign aid. Moreover, over 92 percent of the increase in Government expenditures since 1941 has been thus generated. * * * Naturally, some economies in the military budget are possible, but the totals, even with maximum efficiency, may not be large enough to pay off, at the present tax rates, the 3 or 4 billion dollars of Federal Government debt imperatively necessary at high levels of national income.

Thus one may well agree with the Hoover Commission's findings as reported in the National City Bank letter of February 1949, that:

The military services "are far too prodigal with Government funds." They lack "a sense of cost consciousness or a general realization of the vital importance to our national security of utmost conservation of our resources." The military budget needs "a major overhaul," with adequate means for checking, auditing, and control.

Congress, however, has already tried to introduce greater economy and efficiency in the Military Establishment; that was the purpose of the law which merged the military departments. There is no evidence that any reduction of national expenditure sufficient to achieve a surplus can be accomplished by reorganization or by any of the economies which everybody advocates. The outlay is kept high because, unfortunately, the need for national defense cannot be neglected. (Source: Joint Economic Report. Report on the January 1949 Economic Report (81st Cong., 1st sess., S. Rept. No. 88), p. 9.)

The facts before us, however, the high war expenditure and war output, the accumulated purchasing power after reconversion, and the continuing high level of demand for the near future described by economists—serve but to emphasize the central economic problem. It is this: We have an extraordinary national debt created by Government expenditures for war, the interest upon which and the liquidation of which must be met by a continued high level of production and economic activity. If there should be no substitute market for the products of field and factory in the years following 1950 to supplement the market created by the extraordinary Federal outlay for war and the extraordinary private outlay to satisfy the accumulated demand for civilian goods, the Government would be face to face with a serious problem of finding the revenues with which to pay the interest upon the national debt and carry on its normal functions. (Source: Joint Economic Report. Report on the January 1950 Economic Report (81st Cong., 2d sess., S. Rept. 1843), p. 4.)

The important facts are that there can be no letup in the necessary strengthening of our defenses against aggression, that the Government has been operating at a budget deficit since April, and that prices are today threatening to resume their upward trend. The committee believes that the avoidance of inflation is essential to the long-run strength of this Nation; to the preservation of the free-enterprise system and the liberties which it permits.

The committee believes that fundamental inflationary pressures will continue to mount in the months to come as the presently scheduled defense effort diverts larger portions of national production from civilian use.

The committee is consequently convinced of the urgent need (1) for renewed efforts to reduce and postpone less essential Government expenditures, and (2) for promptly providing tax revenues sufficient to balance a carefully planned administrative budget this fiscal year.

Doubts as to the efficacy of direct controls, including selective credit controls, under the Defense Production Act as amended make it all the more important that the expected inflationary gap be closed by rigorous Government economy and increased taxes. (Source: "Inflation Still a Danger," Aug. 15, 1951 (82d Cong., 1st sess., S. Rept. 644), p. 1.)

The magnitude and timing of the defense program are the major factors shaping the future of the economy.

* * * * *

While aggregate expenditures contemplated for the defense effort appear small compared to expenditures for World War II, nevertheless the impact on many industries will be severe—particularly those using scarce metals.

The incomes generated by a defense effort of the size contemplated pose problems for economic stabilization. Consumers may try to spend during fiscal year 1953 some \$5 billion more than supplies of goods available at June-July 1951 prices.

These calculations actually minimize the inflationary risk. The important point is not the precise magnitude of this estimated consumer inflationary demand, but rather that the analysis, on a conservative-risk basis, shows inflationary tendencies in the economy. * * * (Source: Joint Economic Report. Report on the January 1952 Economic Report (82d Cong., 2d sess., S. Rept. 1295), p. 37.)

It is beyond the jurisdiction of this committee to pass judgment upon the adequacy of our military preparedness. It is not our function to determine how many air wings, ships, or divisions are necessary.

However, we do feel it is within our jurisdiction to state that, in our opinion, the economy is capable of meeting safely additional military expenditures if such expenditures are necessary for our military security.

This is not a recommendation for more spending for national-security purposes. It is rather an assertion that reductions in these programs, which have been made and which are projected for the future, should be justified upon their merits, and not upon the premise that they are made necessary for economic reasons. (Source: Joint Economic Report. Report on the January 1954 Economic Report (83d Cong. 2d sess., H. Rept. 1256), pp. 5-6.)

We readily confess our inability to understand the magic by which we can restrict public expenditures yet build up the Nation's defense and our stock of basic public assets, as claimed in the President's Economic Report. We have heard repeatedly in the past months from those whose judgment has been proved sound that our defense preparedness is lagging seriously behind that of the Soviet Union. Perhaps the best current example is the rapid advance of the Soviets in the development of intercontinental ballistic missiles while the Defense Department refuses to undertake an all-out program for the development of this type of weapon.

To a significant extent, our defense preparedness appears to have been limited by considerations of "economy" and by basing decisions as to requirements on what we have done so far rather than on what other nations are now accomplishing. We are not critical of efforts to obtain the greatest efficiency in our military spending and applaud efforts to provide greater strength at lower cost. The American economy, however, can support a substantially greater defense effort if needed. (Source: Joint Economic Report. Report on the January 1956 Economic Report (84th Cong., 2d sess., S. Rept. 1606), p. 23.)

More than 60 percent of estimated budget expenditures for fiscal 1958, as proposed in the President's January 1957 budget message, is for major national security programs, including expenditures abroad. The Joint Economic Committee repeatedly has pointed out that our economy can support such heavy defense programs while increasing productive capacity and living standards in the private sectors of the economy. Nevertheless, national security expenditures require the use of large amounts of resources which might add significantly to the rate of economic growth. A prime objective of the Congress and the administration, therefore, should be to achieve the highest possible level of military competence at the least possible cost in terms of resources used. (Source: "Fiscal Policy Implications of the Economic Outlook and Budget Developments," June 26, 1957 (85th Cong., 1st sess., H. Rept. 647), p. 4.)

Increasing emphasis on economic growth necessarily focuses attention on Federal expenditure policies. The Federal Government is the largest industry in the United States. Its direct purchases of goods and services account for a substantial share of the economy's total output; its effects on the amount and

character of economic activity are even greater than can be indicated by any such statistic.

In part, these influences stem from the means by which the Federal Government's activities are financed. * * *

* * * * *

In the broadest sense, the amount of resources we can afford to devote to national defense depends on the benefits to be derived compared with the real output for nondefense purposes which must be given up in order to achieve them. The benefits of an adequate defense program lie in prevention of the loss of life and property which would result if a lack of military capability by the United States led to the outbreak of war. Since such benefits are incalculably great, there can be little question that whatever level of defense effort, attainable in real terms, is required to deter aggression is clearly economical.

Present defense expenditures, in fact, are absorbing about 10 percent of the Nation's total output. A mere continuation of the postwar trend of growth in real output would alone make possible substantial annual increases in our defense program without materially increasing the proportion of total resources allocated to this end. A 20-percent increase in annual defense outlays, for example, would require less than two-thirds of the annual increase in the economy's total output which we can expect if the postwar rate of growth is maintained. The extent to which our defense preparations can be enlarged and made more effective will be limited, if at all, by difficulties in reallocating resources rather than by inadequate economic capacity. (Source: "Federal Expenditure Policies for Economic Growth and Stability," Jan. 23, 1958 (85th Cong., 2d sess., committee print), pp. 2, 3.)

4. The United States must be prepared for a long-term rise in defense demands. These demands must be determined upon their merits in terms of military and diplomatic strategy, rather than by their effects upon the economy or by the availability of governmental revenues to support them. Whether or not these rising demands will require increasing outlays will depend in part on specific, positive efforts to achieve more efficient use of resources committed to defense preparations. In any case, the Nation's economic capacity can bear whatever burden national security requirements may impose. The weight of this burden will depend on whether defense demands increase more rapidly than our productive capacity. The prospect of increasing defense requirements, therefore, emphasizes the importance of achieving and maintaining a high rate of economic growth. (Source: 1958 Joint Economic Report. Report on the January 1958 Economic Report (85th Cong., 2d sess., H. Rept. 1409), p. 3.)

In considering economic growth patterns and our ability to progress in the various areas of national need, we must constantly consider the rising costs of defense expenditures as a major influence. The report of the Rockefeller Brothers Fund on the U.S. economy pointed out that—

We can afford the defense programs essential for survival. In doing so, however, unless we achieve a 5-percent growth rate, we shall have to hold back otherwise desirable expenditures in the Government field and keep the growth of private expenditures below a level commensurate with our aspirations. (Source: Statement by Senator Jacob K. Javits in 1959 Joint Economic Report. Report on the January 1959 Economic Report (86th Cong., 1st sess., S. Rept. 98), p. 41.)

Changes in defense orders and purchases have been an important cause of economic instability in the postwar period. These changes should be based upon the Nation's long-run defense requirements, and not upon considerations of the debt limit or other narrow budgetary concerns. Changes in defense demands should be treated as signals that offsetting changes in taxes or other expenditures may have to be made if recessionary or inflationary strains are to be avoided. (Source: "Employment, Growth, and Price Levels," Jan. 26, 1960 (86th Cong., 2d sess., S. Rept. 1043), p. 20.)

APPENDIX 2

CHAPTER IX. CONCLUSIONS ON THE MANAGEMENT OF GENERAL SUPPLIES
WITHIN THE DEPARTMENT OF DEFENSE¹

The Armed Forces Supply Support Center has been charged with recommending courses of action to provide for improvement, if required, in the management of general supplies within the Department of Defense. In carrying out its assigned task, the center has assessed the military services supply operations to determine—

- The need for management improvement among the military services ;
- The feasibility of establishing single manager (s) in this area ; and
- The feasibility of establishing commodity management center(s) in this area.

Any other optimum course of action that may be appropriate for improvement in management of general supplies within the Department of Defense.

1. NEED FOR MANAGEMENT IMPROVEMENT AMONG THE MILITARY SERVICES

The functional analysis of the four military services supply systems engaged in the management of general supplies indicates that these systems are effectively supporting their individual services. Each of the ICP's displayed an aggressive interest in improving supply support to customers, increasing efficiency through improved procedures and reducing operating costs. Various programs aimed at introducing improved data processing and transmission methods in the management of military supplies were observed at practically every ICP.

From a Department of Defense view, however, the range of general supply commodities in the GSSM is a fertile field for more economical overall management with sustained and improved effectiveness. Consolidated management of various general supply commodities is already in effect within each of the military services. Further consolidation can be accomplished across service lines and additional economies realized. The principal economies can be realized in the distribution systems and in overall inventory investment of the military services.

a. *Distribution systems.*—It is in the distribution systems of the four military services that the greatest economies can be realized through consolidated management of general supplies.

(1) *Economies in ICP operating costs.*—At the present time there are 31 national ICP's, each managing more than 100 items in the GSSM item range, although the preponderance of items and inventory is controlled by the 4 commodity-type ICP's managing general supplies in the military services. The GSSM items managed by these four ICP's, with few exceptions, have material requirements computed on the basis of the demand/issue principle. While individual service plans and programs may be modifying factors in certain situations, past demand/issues is the key factor employed by each of the four ICP's in the computation of future requirements. Under consolidated management, any one of these ICP's could manage common items in the GSSM range for all military services. Personnel savings, as well as a reduction in other ICP operating costs, could reasonably be anticipated through elimination of duplicating central management of common items. It is recognized that personnel staffing and other operating costs of an ICP do not decrease in direct proportion to a reduction in the number of items managed. However, the consolidated management of common items by selected commodity ICP's for all military services can be expected to reduce the aggregate Department of Defense cost of supplying such items.

(2) *Economies in depot operating costs.*—An examination of the depots and supply points of the four military services engaged in the storage and issue of GSSM items discloses that in almost any geographical region of the United States there are several wholesale depots or supply points of each service engaged in supplying the needs of one service without regard for overall Department of Defense requirements. That these distribution systems overlap geographically has been demonstrated in chapter VI of this volume.

¹ "Report on Management of General Supplies," vol. II, "Analyses, Conclusions, and Recommendations, September 1959."

The precise extent of the overall duplication of item stockage in the wholesale distribution systems of the military services cannot be ascertained, but it has been positively established that—

(a) Of the 9,476 GSSM items that the Army manages centrally and stocks in its wholesale distribution system, 4,390, or 46 percent, of the same items also are stocked in the wholesale distribution system of one or more other military services.

(b) Of the 24,874 GSSM items that the Navy manages centrally and stocks in its wholesale distribution system, 6,504, or 26 percent, of the same items also are stocked in the wholesale distribution system of one or more other military services.

(c) Of the 18,629 GSSM items that the Air Force manages centrally and stocks in its wholesale system, 4,622, or 25 percent, of the same items also are stocked in the wholesale distribution system of one or more other military services.

(d) Of the 10,881 GSSM items that the Marine Corps manages centrally and stocks in its wholesale distribution system, 4,165, or 38 percent, of the same items also are stocked in the wholesale distribution system of one or more other military services.

The above measure of item stockage duplication is conservative in that it is based upon precise FSN matches. Under central management additional items would be disclosed which are nearly identical and susceptible to substitution, thereby increasing even further the commonality in these commodities.

A single distribution system scientifically engineered to serve the needs of all military services could be expected to produce savings through a reduction in the number of wholesale outlets in the system as a whole, elimination of duplicate item stockage, and better utilization of operating capacity of remaining facilities.

In addition, the GSSM items occupy warehouse space amounting to approximately 3 million square feet in the Army and 800,000 square feet in the Air Force and Marine Corps. Comparable data were not furnished by the Navy; however, assuming that the Navy compares equally to the Army, an additional 3 million square feet of warehouse space would be added, making a total of approximately 6,800,000 square feet. Reduction in inventory investment under consolidated management is discussed in subsequent paragraphs. This reduction will result in a proportionate decrease in warehouse space requirements.

(3) *Economies in transportation costs.*—Each military service has established a policy that distribution of supplies will be accomplished with a minimum of crosshaul and backhaul as a means to conserve transportation funds. Each service tries to achieve this objective within its own distribution system. However, from an overall Department of Defense view, crosshaul and backhaul do exist in the military service supply systems. An optimum distribution system based on the total volume of business of the military services and customer spread would result in economies through the reduction of crosshaul and backhaul to a minimum.

b. *Inventory investment.*—The second major area of the economies that can be realized through consolidated management is in the inventory investment of the four military services in general supplies:

(1) *Economies in procurement.*—Currently, SDP assignments within the GSSM vary considerably with exclusions and exemptions. The potential of SDP in the GSSM is only partially utilized due to exclusions, provisioned items, small individual service requirements (less than \$1,000), and local purchase codings. Within the GSSM known central procurements of \$115.4 million, 26 percent (\$30 million) is processed through the SDP on a dollar value basis. Existing procedures employed by SDP assignees for GSSM do not attain effective consolidation of requirements from the individual military services. Consolidation of GSSM requirements and fully coordinated procurement which can occur under consolidated management will achieve price advantages inherent in volume procurement and will result in reduced administrative procurement costs.

(2) *Economies in system stock levels.*—There are in existence within the military services several separate procurement pipelines, safety levels, operating levels, and reserves which have the common objective of assuring effective supply support in peacetime and under mobilization conditions. Differences in safety levels and operating levels/procurement cycles that exist for computing the system stockage objective for items within the GSSM can be attributed to variations in selective item management techniques employed by each of the

services for their total item range. While it is not feasible to subject all four services to uniform techniques of selective item management for the GSSM range, this uniformity can be achieved under consolidated management. This would assure the optimum inventory investment based on variability of demand, variability in procurement leadtime, and economic order quantity principles.

It is an accepted principle of requirements determination that the broader the base of demand, the more predictable demand becomes. Consolidated Department of Defense requirements provide the broadest possible base obtainable for projecting future military needs, and under scientific requirements determination formulas would permit a lower overall safety level to achieve the same assurance of supply effectiveness. The lower inventory investment to be achieved through application of scientific computations to a broad requirements base should be substantial in a commodity area such as GSSM which is characterized by a comparatively high volume of dollar sales and annual turnover. Even a small percentage reduction in overall inventory investment in general supplies represents millions of dollars.

(3) *Economies through utilization of long supply and excess stocks.*—One of the problems currently facing the military services is in obtaining optimum use of long supply and excess assets of one military service by the other services. Various programs and techniques have been devised to achieve this objective. Due to separate service requirements determination and retention criteria, transfers of assets across service lines have been less than expected. Within the GSSM, interservicing at the ICP level for the last half of fiscal year 1959 amounted to approximately \$500,000 against annual procurement programs of \$115 million. Interservicing through the Commodity Coordination Groups (CCG's) for the GSSM is not currently effective. This coordination process, both in resources exchanged and commodity/system improvement, is lagging for reasons beyond the control of the CCG's. Implementation of DOD Directive 4140.13 (RAP/TAP) will achieve better interservicing. However, consolidated management would directly and immediately achieve maximum utilization of such through the matching of total DOD assets to requirements, and the use of substitutes to facilitate stock attrition. This is rather significant since 34 percent (\$101.38 million) of the stratified GSSM inventories (\$293.7 million) are identified as long supply stocks. Further, under consolidated management, mobilization criteria would be uniformly applied to selected items.

Another program that was established to promote better utilization of material resources across service lines is the reporting and screening of DOD excess personal property for fiscal year 1959; excess declarations in the GSSM range amounted to \$44.14 million; excess utilization thereof amounted to \$5.78 million (13 percent), a substantial portion of which was at base and station level. While the excess utilization rate is good, consolidated Department of Defense management of any commodity area will obviate the need for expenditure of effort to redistribute excesses after the fact. Any excesses generated within a consolidated inventory management operation are absorbed immediately in subsequent requirements computations and become a problem only if an item is rapidly approaching obsolescence. Concurrent buying and selling by the military services is eliminated on centrally managed items. Uniform policies on local procurement of decontrolled items will minimize the problem of concurrent buying and selling at base and station level.

(4) *Economies through reduction in item range.*—The assignment of responsibility to a single agency within the Department of Defense for the inventory management of a specified commodity range will provide a built-in authoritative monitorship of item entry into the supply systems which will foster standardization to a degree that is not easily attained under separate supply systems. Reduction of item range within the Department of Defense should result in an overall reduction of inventory investment to support the military services.

Conclusion

There is need for improvement in the management of general supplies across military service lines. Economies can be achieved most effectively through consolidating supply management.

2. THE FEASIBILITY OF ESTABLISHING SINGLE MANAGER(S) IN THIS AREA

On November 4, 1958, the Office of the Assistant Secretary of Defense (Supply and Logistics) addressed a memorandum to the Director, Armed Forces Supply Support Center, which attached the criteria for determining commodities which

are amenable to consolidated management under a single manager, and for determining the most qualified military department. These criteria had been approved by the materiel secretaries of the military departments.

The criteria for determining commodities amenable to consolidated management under a single manager are:

Specific criteria.—

- (a) High degree of commonality or of potentially increased commonality.
- (b) Inventory and sales large enough to give a potential for substantial economy.
- (c) Sufficiently large number of items.
- (d) Acquisition and sale of stocks are susceptible to stock fund financing.

Check and test criteria.—

- (a) Integration will produce overall increase in efficiency and economy without a decrease of effectiveness in supply support in peace and war.
- (b) Single procurement, contract administration, and inspection will increase efficiency and economy and improve relations with affected industry.
- (c) Establishment will produce better management of inventories.
- (d) Consolidation of wholesale inventories will eliminate unnecessary multiple storage in the same geographical area and will minimize crosshaul and backhaul of supply.

Under the specific criteria set forth above, GSSM is amenable to consolidation under a single manager.

a. *Commonality.*—A relatively high degree of item commonality exists in the GSSM, even when measured solely in terms of precise FSN matches. Twenty-two percent of the GSSM items have two or more inventory control points registered and thus can be considered to be common among two or more military services. There exists the potential for greater commonality since standardization has not been completed in the GSSM area.

b. *Inventory and sales.*—The reported GSSM inventory is \$350 million (\$244 million, administrative and housekeeping, and \$106 million, handtools.) Two existing single managers, medical (\$300 million) and subsistence (\$100 million), have stocks that are less than the \$350 million identified as the GSSM inventory. As indicated in chapter III, the GSSM inventory value indicated above is considered conservative. Substantial inventories in the GSSM are known to exist in ICP's which did not furnish financial data. Although an indeterminate portion of the GSSM inventory in the military services will be excluded from single manager control for engineering-essential and operational-essential considerations, the remainder is considered to be sufficiently large to justify assignment to a single manager.

During fiscal 1959, GSSM sales by the four services were calculated at approximately \$143 million (\$112 million, administrative and housekeeping, and \$31 million, handtools.) In this instance also, assuming sales volume of an existing single manager is a valid basis for comparison, GSSM sales are approximately twice the volume of fiscal year 1959 sales by the medical single manager (\$76.7 million).

c. *Number of items.*—Again, in comparison with existing single managers, the item range is sufficiently large. There are 75,489 GSSM items (25,116 administrative and housekeeping, and 50,373 handtools). The number of GSSM items that may be brought under single manager control will be somewhat less because of exclusions based upon engineering-essential and operational-essential considerations.

d. *Susceptibility to stock fund financing.*—The GSSM item range is considered to be susceptible to stock fund financing, with the possible exception of certain engineering-essential and operational-essential items which are currently procured primarily from appropriated funds, and which would under recommended item screening be excluded from consolidated management. Eighty percent of the reported GSSM inventory (\$278 million out of \$350 million) is now stock funded.

Application of the check and test criteria to the GSSM item range also serves to affirm the feasibility of assignment to a single manager. In an earlier paragraph which discussed the need for improvement in the management of general supplies among the military services, the economies which might be anticipated through consolidated management were discussed in detail. Specific areas of increased efficiency and economy in the operation of a consolidated supply system for the Department of Defense were highlighted. However, the real test of feasibility is in the determination of whether an overall increase in ef-

iciency and economy can be accomplished without a decrease in the effectiveness in supply support in peace and war.

The effectiveness of single manager operations in peacetime and under mobilization was studied during 1958-59 by teams consisting of representatives from JCS, OSD, AFSSC, and the military services. Based upon the team reports, as concurred in by the military services, a report entitled "Commodity Single Manager Evaluation Study" was published in June 1959, which stated that the present wholesale commodity single managers had:

- (a) Highly effective or acceptable supply effectiveness;
- (b) Reduce inventories or started stock attrition;
- (c) Improve procurement processing time and delinquency rates;
- (d) Streamlined commodity distribution systems;
- (e) Saved storage space;
- (f) Contributed to item reduction;
- (g) Achieved general customer level satisfaction;
- (h) Reduced crosshauls and backhauls;
- (i) Assisted in eliminating concurrent buying and selling;
- (j) Reduced personnel and payroll;
- (k) Deficiencies in certain mobilization areas but which also apply, in general, to the other supply systems.

The commodity single managers appeared before the Holifield subcommittee (Government Operations) on May 25 and 26, 1959, and testified that their single managerships had basically the same advantages and economies as stated above.

In view of the findings of the joint task groups, as concurred in by military services, and the single managers' testimony before Congress, it can be concluded that the single manager concept is feasible, and may be applied to any commodity range which has characteristics similar to those managed by the existing single managers.

The GSSM has the similar essential characteristics of a comparatively high degree of common usage and commercial availability; therefore, it can be expected to achieve a comparable degree of efficiency, economy, and effectiveness if placed under consolidated management. That the GSSM is susceptible and suitable for consolidated management on a commodity basis is borne out by the practices of the military services in their own operations.

Conclusion

The general supplies study model meets the criteria established by the ASD (S. & L.) and approved by the Materiel Secretaries. It is feasible for assignment to, and management by, a single manager.

3. THE FEASIBILITY OF ESTABLISHING COMMODITY MANAGEMENT CENTER(S) IN THIS AREA

Under the commodity management concept, the departmental activities responsible for supply management of common and closely related commodities would be physically located together. By bringing together in one location the personnel from each service who compute requirements, procure, distribute, standardize, and catalog for the same commodities, coordination of supply operations would presumably be promoted. Further, these activities could share a common administration staff, data-processing center, procurement staff, and standardization staff. Services would be able to operate independently in the management of program-type items but achieve maximum coordination in those areas of common interest.

For the GSSM the weakness in the commodity management center concept is not in what it could do but in what it could not do. It is a coordinative, middle-of-the-road approach to supply management which will not achieve some of the paramount benefits of consolidated supply management. Under a commodity management center concept, which would permit the military services to manage and issue common items through their own separate distribution systems, neither of the following major benefits of consolidated management would accrue:

- (a) Economies in distribution systems, through the elimination of duplicate item management at inventory control points and a reduction in overlap in distribution facilities.
- (b) Economies through reduction in inventory investment, through consolidation of the several service procurement pipelines, operating levels, safety levels, and long supply stocks.

Conclusion

The establishment of a commodity management center for the general supplies study model will not achieve the optimum economies attainable under consolidated management.

4. ANY OTHER OPTIMUM COURSES OF ACTION

The fourth objective of the AFSSC study project 59-2 is to recommend courses of action which would enable the optimum management of the general supplies commodity area within the Department of Defense.

It has been determined that it is both feasible and appropriate to establish a DOD single manager for the GSSM. While this action can be undertaken now, a broader course of action with respect to those other identifiable segments of general supplies must be considered so that military logistics planners can work effectively toward an optimum supply system for general supplies that can support all military service materiel needs efficiently.

In blueprinting future actions with respect to all segments of general supplies, each commodity area has been considered by the AFSSC in determining the optimum courses of action to be recommended.

The commodity areas are—

- (a) Administration and housekeeping supplies—Handtools (GSSM).
- (b) Hardware and abrasives.
- (c) Construction equipment and supplies.
- (d) Automotive equipment and supplies.
- (e) Electrical and electronic supplies.
- (f) Other type general supplies.

Each commodity area, its significant characteristics, and a recommended course of action for each is outlined in "Chapter X: The Blueprint." Also, requisite fundamental features for designing an integrated supply system for general supplies will be discussed in chapter X, and conclusions are drawn relative to—

- (a) Determining how properly to align items in a given Federal supply class between the single manager and the individual military services.
- (b) Determining the role of GSA.
- (c) Establishing a single, integrated "frame" for materiel distribution.
- (d) Developing uniform, simplified single manager procedures.
- (e) Designation of the single managers.

Conclusion

To recommend courses of action which will enable optimum management of general supplies within DOD it is necessary to consider all other segments of general supplies and to develop a blueprint which will encompass the development of integrated materiel distribution systems and uniform operating procedures.

APPENDIX 3

U.S. GENERAL ACCOUNTING OFFICE,
OFFICE OF GENERAL COUNSEL,
Washington, D.C., January 14, 1960.

Memorandum

Subject: Legislative history and purposes of the advertising requirement of section 3709 of the Revised Statutes.

Section 3709 of the Revised Statutes first appeared as a part of the act which revised and consolidated the statutes of the United States in force on December 1, 1873, and provided as follows:

"SEC. 3709. 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 articles 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."

Section 3709 is one of the derivative sources of the present codification which appears at 41 U.S.C. 5.

The above-quoted language is reportedly derived in part from section 10 of the act of March 2, 1861 (12 Stat. 220). While this is technically correct, derivative language appeared in prior acts and some mention of the historical development of this language is considered important.

The debate on H.R. 895 of the 2d session of the 36th Congress, which became the act of March 2, 1861, contains information that is pertinent to the development of this language. Congressman Davis of Maryland, one of the House conferees to the joint conference which considered disagreements between the Senate and House on H.R. 895, submitted a report which contained the following language:

"That the House recede from their disagreement to the Senate's forty-first amendment, and agree to the same with the following amendment: Strike out all of said amendment after the word 'enacted,' and insert the following: 'That all purchases and contracts for supplies or services in any of the departments of the Government, except for personal services, when the public exigencies do not require the immediate delivery of the article or articles, or performance of the service, shall be made by advertising a sufficient time previously, for proposals respecting the same. When immediate delivery or performance is required by the public exigency, the articles 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. * * *'"

In explaining this language Congressman Davis stated:

"The last point upon which the committee agreed upon the 41st amendment arises from these circumstances: A law was passed at the last session providing that certain purchases required to be made for the public service, should, unless the exigencies of the public service required otherwise, be made upon publication. That same amendment went on to prohibit the United States from purchasing patented articles. An attempt was made in the Senate to repeal the latter portion, but by accident the repeal applied to the former portion of the act. In order to make the matter plain, we insert, in lieu of the 41st amendment in this bill, the portion of the section which by accident was repealed, and repeal the latter part of the law of 1860, which by accident was not repealed." (Congressional Globe, 2d sess., 36th Cong. (1860-61), pt. 2, p. 1421).

The law that Mr. Davis referred to in his remarks was the act of June 23, 1860. Section 3 of that act, which is found at 12 Stat. 103, 104, provided in part:

"Sec. 3. *And be it further enacted*, That all purchases and contracts for supplies or services in any of the departments of the government, except for personal services, when the public exigencies do not require the immediate delivery of the article or articles, or performance of the service, shall be made by advertising, a sufficient time previously, for proposals respecting the same. When immediate delivery or performance is required by the public exigency, the articles 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 act of June 23, 1860, originated as H.R. 339 of the 1st session of the 36th Congress, and the particular language of section 3 found its way into H.R. 339 by way of an amendment introduced by Senator Jefferson Davis of Mississippi. In explaining his amendment Senator Davis stated:

"That is supplemental to existing legislation, and I think it will perfect the restrictions now imposed upon contracts made for public supplies. * * *"

(Congressional Globe, 1st sess., 36th Cong. (1859-60), pt. 4, p. 2933).

An example of the "existing legislation" that Senator Davis had in mind when he introduced his amendment is found in the act of March 3, 1843 (5 Stat. 617). This act provided in part that all provisions, clothing, hemp, and other materials for the use of the Navy should be furnished by contracts awarded to the lowest bidder after advertising for and receipt of sealed proposals.

Except for the actual language of section 3709 of the Revised Statutes, all of the language quoted above is taken from appropriation acts or debates on appropriation acts. The available legislative histories pertaining to appropriation acts for the period involved are limited and, unfortunately, are the only sources available for an explanation of the reasons behind the language found in section 3709. However, the following quotation from B-123491, April 27, 1955 (34 Comp. Gen. 551) is indicative of the consistent reasoning of the General Accounting Office as to the purpose of section 3709.

"The courts and accounting officers of the Government have frequently and consistently held that section 3709, Revised Statutes, was designed to give all persons equal right to compete for Government business, to secure to the Government the benefits which flow from competition, to prevent unjust favoritism by representatives of the Government in making purchases for public account, and to prevent collusion and fraud in procuring supplies or letting contracts."

 APPENDIX 4

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 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.

Identical letter sent to: Secretary of Army, Secretary of Navy, Secretary of Air Force and Coast Guard.

 APPENDIX 5

THE WHITE HOUSE,
Washington, January 18, 1945.

HON. HAROLD D. SMITH,
Director, Bureau of the Budget,
Washington, D.C.

MY DEAR MR. SMITH: I think it important that the executive departments and agencies develop more systematic records and procedures for use in all trans-

actions requiring a description of items of real and personal property. The large number of actions relating to the acquisition, care, and disposal of Federal property has greatly accentuated the need for this improvement in governmental practices, both for the effective prosecution of the war and for the more orderly conduct of peacetime affairs. Such records and procedures should be developed by the several departments and agencies chiefly concerned in accordance with a uniform central plan developed by you. This plan should include a uniform property classification and a uniform item identification system, covering all commodities, which together might be known as the U.S. Standard Commodity Catalog.

Accordingly, it is my desire that you proceed without delay to secure the preparation and maintenance of such a catalog, utilizing all relevant systems and methods now in use by the Government to the extent that they conform with the central plan, and utilizing also the facilities and services of the agencies principally concerned. It is my wish, and I hereby request, that each department and agency shall assume such share of the work and responsibility as you may determine. Any necessary costs to the several departments and agencies beyond those they are now incurring for similar activities should be included in additional estimates of appropriations.

When the Standard Commodity Catalog or any part of it is ready for use it should be promulgated by you for use throughout the Government in all relevant activities involving the procurement, storage, issue, disposal, or intra-Government transfer of property, the listing or cataloging of property, and the collection and tabulation of commodity information.

Pending the formalizing of these instructions in an Executive order, I wish you would convey to all departments and agencies my instructions regarding this matter and take whatever steps are necessary to develop and maintain the catalog.

Sincerely yours,

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
Washington, July 15, 1946.

HON. PAUL H. APPLEBY,
*Acting Director, Bureau of the Budget,
Washington, D.C.*

MY DEAR MR. APPLEBY: I have your memorandum with reference to the general plan for the development and maintenance of a Federal catalog system which would standardize for all agencies the classification and item numbering of property purchased by the Federal Government. I agree with you that the proposed unified system will result in significant improvements and economies in supply operations of the Government.

Pending further study of some features of the proposed plan, including the need for legislation and the budget that should be sought, I desire that further development of the Federal catalog system be continued through interdepartmental cooperation and joint working arrangements. I concur in your recommendation that the U.S. Standard Commodity Catalog Board, which has been advising you on this matter, should continue its work, under your general supervision. The Board should complete the development of all phases of the uniform plan and coordinate with this plan the cataloging activities of the agencies chiefly concerned.

I request that you arrange with the Secretary of the Treasury for the Procurement Division to organize a central staff to assist the Board in developing the details of the uniform system and in the work required for the coordination of agency cataloging activities with this system. I further request that you advise the Secretary of War and the Secretary of the Navy, together with the heads of such other departments and agencies as you may determine, of my desire that the cataloging operations of these agencies be continued and that they be conducted in conformity with the plans for the Federal catalog system. The services performed by the control staff established in the Procurement Division will thereby be utilized in the cataloging operations of these departments and agencies. Those departments and agencies utilizing such services should reimburse the Procurement Division therefor from their regular appropriations.

Sincerely yours,

(Signed) HARRY S. TRUMAN.

APPENDIX 6

[From the Congressional Record, Aug. 11, 1960]

ADDRESS BY HON. ROBERT A. LOVETT, FORMER SECRETARY OF DEFENSE

Extension of Remarks of Hon. Henry M. Jackson, of Washington, in the Senate of the United States, Thursday, August 11, 1960

Mr. JACKSON. Mr. President, I ask unanimous consent to have printed in the Appendix of the Record the speech of the Honorable Robert A. Lovett, former Secretary of Defense, at the George C. Marshall memorial dinner, August 10, during the annual meeting of the Association of the U.S. Army.

Mr. Lovett's speech is a stirring document, one filled with warm tribute to a great soldier-statesman, General Marshall, and one containing sound advice on vital defense matters. I commend Mr. Lovett's speech to all of my colleagues and to the American people.

Appropriately, the Association of the U.S. Army awarded to Mr. Lovett its first George Catlett Marshall medal "for selfless service to the United States of America." I know of no living American more deserving of this recognition.

There being no objection, the speech was ordered to be printed in the Record, as follows:

"ADDRESS OF HON. ROBERT A. LOVETT, FORMER SECRETARY OF DEFENSE, AT GEORGE C. MARSHALL MEMORIAL DINNER DURING ANNUAL MEETING OF ASSOCIATION OF THE U.S. ARMY, WEDNESDAY, AUGUST 10, 1960

"If a man is very fortunate he may have, once in a lifetime, the opportunity to work in a cause he believes in with all his heart and soul and under the leadership of a man whom he admires, respects, and comes to love. I have had that great privilege three times: Once, with Henry L. Stimson and, twice, with General Marshall, and, until the day I die, I will be grateful to them for letting me see, at first hand, the qualities of greatness and true leadership. Both these extraordinary men had much in common. The strengths of both stem from the fundamentals of sterling character. Both had unshakable integrity. Both were fearless of the consequences of a course of action they felt in duty bound to take. Working close to them was, therefore, a stimulating and inspiring experience, in part because their own personal standards were so high that, unless you were a hopeless clod, you had to raise your own. Service with them could not fail to refine and add balance to one's sense of values.

"Since October 1959 I have wanted to share with General Marshall's old comrades in arms some memories of him and to reminisce about the little-known man, behind the serious and dignified exterior, whom the world regarded with respect, admiration, and something akin to awe. The first of the memorial dinners seems to me to be the proper time and place to do so and to show you one or two vignettes of this remarkable man whom you honor tonight and to remind you of some of his characteristics which made him so inspiring a figure.

"I have no words to express my own feeling of admiration, gratitude, and affection for this noble man. Perhaps it is as well, for what could my words—or indeed, any words, add to the stature of General Marshall—Chief of Staff, General of the Army, Secretary of Defense, Secretary of State, citizen and recipient of the Nobel Peace Prize.

"The whole world has recognized his magnificent accomplishments in the service of his country and the civilized world has sought to honor him. His public virtues have been extolled by the great of every country who have paid him homage and, in almost unmatched eloquence, have expressed their gratitude.

"Consider, for example, the moving testimony of the value of his services to his country from the two Presidents whom he served.

"President Roosevelt stated simply, 'I feel I could not sleep at night with you out of the country.'

"President Truman, whom he served twice as Cabinet officer after his brilliant service as Chief of Staff, has called him 'the organizer of victory, the greatest of the great in our time,' and has said 'he takes his place at the head of the greatest commanders of history.'

"Or, hear what his British colleagues in the Combined Chiefs of Staff, said to him in a message on his retirement as Chief of Staff in November 1945. It is a document almost without parallel.

"It reads, in part:

"On your retirement after 6 years as Chief of Staff of the U.S. Army, we, your British colleagues in the Combined Chiefs of Staff, send you this message of farewell.

"We regret that Field Marshal Sir John Dill, and Admiral of the Fleet Sir Dudley Pound, two of your greatest friends and admirers, are not alive today to add their names to ours. As architect and builder of the finest and most powerful Army in American history, your name will be honored among those of the greatest soldiers of your own or any other country.

"Throughout your association with us, in the higher direction of the Armed Forces of America and Britain, your unflinching wisdom, high principles, and breadth of view have commanded the deep respect of us all. Always you have honored us by your frankness, charmed us by your courtesy, and inspired us by your singleness of purpose and your selfless devotion to our common cause. * * *

"Few examples of simple gratitude surpass that brief and moving ceremony on May 8, 1945, in Secretary Stimson's office. Some of you here tonight may remember, as vividly as I do, that General Marshall was summoned to the office of the Secretary, where Mr. Stimson had invited 14 senior generals and his own assistants to be present. The Secretary asked General Marshall to stand beside him, facing the rest of us who were formed in an easy semicircle in front of the Secretary's desk. The Secretary, then 78 years old, took off his old-fashioned spectacles and, holding them in his hand, faced General Marshall, bowed slightly, and said:

"I want to acknowledge my great personal debt to you, sir, in common with the whole country. No one who is thinking of himself can rise to true heights. You have never thought of yourself. Seldom can a man put aside such a thing as being the commanding general of the greatest field army in our history. This decision was made by you for wholly unselfish reasons.

"But you have made your position as Chief of Staff a greater one. I have never seen a task of such magnitude performed by man.

"It is rare late in life to make new friends; at my age, it is a slow process, but there is no one for whom I have such deep respect and, I think, greater affection. I have seen a great many soldiers in my lifetime but you, sir, are the finest soldier I have ever known."

"Much has been said of General Marshall as a great public figure but not nearly enough about him as a very great human being. This is not surprising since the general permitted no intrusion into his private life, except by his Government, for he treasured the brief periods of time that he had with his wife. He found solace, encouragement, and refreshment of spirit in them.

"So I would like tonight to speak of the warmhearted, considerate, generous, and modest man, whom many of you knew so well, and I think the general will forgive me and realize that it is a comfort to speak of those we miss.

"One of the pictures of General Marshall, that I relish, reminds me of his wry, quiet form of humor and his expertness at kidding you while he maintained a straight face and a fairly solemn air. He used to have the barber, Joe Abbate, come up to his room and cut his hair at least once a week. He found the interlude refreshing, the conversation relaxing, and the results becoming. Now, I must confess that I regarded these weekly shearings with amazement and envy, as nature had so scantily endowed me in hirsute gifts that a trip to the barber was a major occasion for me.

"When we were in the Department of State, the operation was performed in a blue-tiled bathroom, with the general ensconced in a leather chair, and Joe, a trusted friend, busily engaged in snipping away with appropriate flourishes. General Marshall left strict instructions, regardless of the haircut, that I was to come in and discuss any matters with him which were not highly classified.

"Time and again I would go in to clear something with the general and I began to look forward to it after a while, because I could see a plot was developing. I rather suspected that the general's aid, Jim George, was involved in it. I would customarily knock on the door and ask if I might interrupt him. He would say, 'Certainly, come in, Lovett.' I would ask him if he would take a look at this particular piece of paper. He would reply he didn't have his glasses; read it to him. I would do so. He would think it over; he might discuss it a bit; then he would give me my instructions, and I would gather up the papers and get ready to go.

"At this point I remember seeing the general looking at me out of the corner of his eye, with his head dropped down, and the barber working on the back of it. I knew a trap was about to be sprung. He said, 'Lovett, do you want Abbate to

wait for you?' I said, 'No, thank you, sir; I think I had better get on with this job.' I started from the room and, just as I got to the outer door, the general said, 'Lovett, you're an ex-banker. Why don't you try negotiating with Abbate for half price?' And I left the room with the general and Abbate looking at each other in the mirror and chuckling with delight.

"Observing General Marshall at close range under all manner of difficult circumstances it seems to me that his greatness stems from a number of traits and talents which have not been fully recognized or adequately mentioned. Some were exceptional gifts. His eminence in leadership, it seems to me, was a talent bestowed by a divine providence and heightened by use and experience, as is the case in any great talent, whatever the field.

"His greatness, however, was enriched by personal traits which, like ardor, spring from the heart. He was a man of extraordinary compassion, of most sensitive and discriminating instinct, and there was an air of natural elegance about him which was unassuming and added enormously to his calm dignity. Dean Acheson, who worked closely with General Marshall over a period of years, found the precise word to describe this quality I speak of. He says, 'The moment General Marshall entered a room, everyone in it felt his presence. It was a striking and communicated force.'

"There were two qualities which seemed to me to have had deep, perhaps even controlling, influence in lifting him to the heights of true greatness; first, his sincere concern for others; and secondly, his acceptance of change as a law of nature. Perhaps you'll permit me to explore these traits with you tonight and to draw a lesson from the second.

"His concern for other people was something more than consideration or courtesy. It stemmed from a genuine interest in people and particularly those for whom he felt some responsibility. It was shown in many ways and on many occasions—some touching and a few amusing.

"It comes through clear and strong and heartwarming in his attitude toward the Army which, I often thought, approximated the worried affection you see when a mother, on a street corner, with her very dear, small son beside her, sees him rather vaguely step off the curb into a street filled with speeding traffic. She reaches down, snatches him by the arm, yanks him back onto the sidewalk, hands him a resounding whack on his dumb little head and, while he howls at the top of his lungs, she bawls him out for having scared the living daylights out of her. In many things, the 'Old Man,' to give him that wonderful, privately used title in the Army felt compelled to do, there was definitely that attitude. And in it, I found comfort and delight.

"But this quality of concern for others is most evident in his deep feeling for the individual soldier. We can hear the understanding and the blunt ring of strong conviction, when in his third biennial report in 1945 he has this to say: 'It is impossible for a nation to compensate for the services of a fighting man. There is no pay scale that is high enough to buy the service of a single soldier during even a few minutes of the agony of combat; the physical miseries of the campaign, or the extreme personal inconvenience of leaving his home to go out to the most unpleasant and dangerous spots on earth to serve his nation.'

"There was an incident in 1948 which, I think, is not only very revealing about many of General Marshall's traits of character but also shows a most engaging quality of President Truman. I have obtained permission to tell this story in detail.

"A meeting of the Organization of American States was scheduled to be held in Bogota, Colombia, beginning April 9, 1948, a little over a year after General Marshall had taken over the difficult job of Secretary of State, to try to reorient our foreign policy in the light of new conditions in the world.

"We had been forewarned that international Communists had selected the occasion as a time for a demonstration and that the United States and General Marshall might be used as symbols to attack. We felt some apprehension about having a substantial number of Americans attend in a mission headed by our Secretary of State.

"Just before the mission took off, the General called me in and asked me if there were any last-minute matters that I wanted to take up with him. I said there were not. I then asked him if he had any final instructions for me and he said, 'Yes,' he had. Using his expressive hands to emphasize his points, he said something like this: 'Lovett, I don't like the sound of that chest cold you've got. You've had it for a week and it doesn't seem to be getting any better. I want you to go to see a doctor right away, act on his advice, and be over it by the time I get back next week.' I said, 'Yes, sir,' and bade him goodby.

"Not long after the start of the meeting in Bogota, a carefully planned and well-led major riot, broke out, during which many of the city's buildings were burnt down and the radio stations and local phone exchange were seized by the mob. It was clear the situation was getting rapidly out of hand and concern for the safety of the U.S. delegation mounted. I stayed at the Department most of the night of April 10-11 and went home a little bit after 3 o'clock in the morning to get a couple of hours' sleep, from which I was awakened by the watch officer calling to say that we had a message in, indicating that the roof of the section of the Embassy, which housed the communication and code room, had been set on fire and that the codes and equipment might have to be destroyed for security reasons. I went back to the Department and, as we were not able to maintain reliable contact by normal radio means, my apprehension grew.

"It was clear from an earlier message that General Marshall was staying at a villa located in a large property about a block in size. We decided to try to get through to him by a telephone circuit which was the sole remaining method of communication. After considerable delay we did reach the house which had been assigned to General Marshall. Jim George and Pat Carter answered the call. I asked how the general was and they said 'fine'; I asked how the mission was, and they said that so far as they knew, 'everything was OK; nobody had been hurt; some had had narrow escapes.' I asked Carter if there was any particular danger. He said he thought not at the moment.

"To my question as to how the general was getting along, he said,—and this is a reasonably accurate quotation—"The old man is fine, he is untroubled, to tell you the truth, I think he is having more fun than he has had since he was a young lieutenant in the Philippine Insurrection. A little while ago he was out in the garage instructing a young lieutenant of the Colombian Army as to how to dispose his men, telling him to bring most of them in out of the rain to shelter, where they could be warm and get some coffee, and to leave on duty only the minimum required to sound an alert if necessary, so that the others, warm and rested, could come out fighting mad and repel any attacks if needed." Carter said 'the old man' wanted to talk to me and in a moment or two, the general's calm voice came on the line. To the best of my recollection, the conversation went something like this: The general said, 'Can you hear me, Lovett?' I said, 'Yes, sir,' and started to say, 'General, how are you?' when he cut in with 'Lovett, how's your cold? Are you doing what I told you to do about it?' At that point, my gaskets blew and I think, in a sanitized version, I said, 'Holy smoke, General, never mind about me. How are you and the delegation?' He said, 'Everything's fine at the moment. We've had a little excitement down here' but he felt the situation was beginning to stabilize, or would shortly; that the Colombian Government had tried to provide protection, which he thought was going to be adequate but that the riot was going to pretty well break up the meeting unless other delegations could be assured of being evacuated if necessary. I asked him what we could do to be helpful and told him the President had instructed me to tell him that he could have anything he wanted to insure the safety of the delegation or for any other purpose.

"General Marshall said he thought that the meeting could be held together if positive assurance of air transportation could be given. He said at last report the government still held the airfield and that he felt that some troop-carrier planes of a squadron from the Panama Canal Zone, one would do the job if they could be held on alert in Panama subject to his call. I asked him if he needed any particular supplies, emphasizing the word 'supplies' in such a manner as to make me feel sure he realized that I meant small arms or other defensive equipment. The general said, 'No,' all he wanted was a gross of candles, some evaporated milk, some karo syrup, and several thousand ponchos. I remember hanging onto the desk while I digested this weird list and wondering who was going to hold a taffy-pull at night in a rainstorm. I said that I would see about having them flown in at once with some emergency rations from the Canal Zone.

"It was a little after 7 o'clock in the morning by now and I called the White House operator and asked her to try to locate the Secretary of the Army at his residence in Washington. She reported shortly that he was out of town on an inspection trip. I then tried the Chief of Staff of the Army, who was away on official business at some Army post. The operator was then asked to try to get hold of the Deputy Chief of Staff.

"I was feeling a bit frustrated by this time and, in a rather self-pitying voice, I said to the operator, 'Good gosh, isn't there anybody in Washington on this bright April morning except you and me?' The reply came promptly back, 'Yes, Mr.

Secretary, President Truman is here. Would you like to speak to him? I said, 'Isn't it a bit early?' and the answer was, 'No,' he has been up over an hour; I'll see if he's available to take the call.'

"In a moment President Truman's voice came on the phone and he said, 'What's the news, Bob?' I gave him the reassuring report from General Marshall about our delegation and included a report on the request for supplies. The President asked what I was doing about getting them down to him promptly. I told him that I was having a little trouble digging out someone early on Sunday morning who could issue the necessary authority to the commanding general in the Panama Canal Zone to make delivery of the requested supplies. He said, 'Well, Bob, you've found him.' Rather startled, I said, 'I beg your pardon, sir'—and heard laughter from the other end of the line, followed by the question, 'Have you forgotten that the President is also the Commander in Chief?' I said I was sorry that I had for the moment, and the President said that a heck of a lot of other people around town had, too, with less excuse than I had. He then asked me to tell him what General Marshall had requested. I read him the list and said, 'Mr. President, have I your authority to send a message to General Crittenger and tell him that you have approved the shipment of these items immediately?' He said, 'No, I'll call him on the phone myself and tell him that I want them shipped at once and to have those troop carriers warmed up and ready to go on General Marshall's call.' The President called back in about 20 minutes and said that he had talked to General Crittenger and that everything was being taken care of.

"My embarrassment at the episode with the President was eased by two things: the President never told on me and our people got home safely. But my curiosity about the ponchos almost killed me until I got the story from Carter and George. It appears that the Colombian troops came up from the jungle heat to the high altitude of Bogotá, with the temperature about 50, in thin cotton uniforms and the general realized that standing around in the drizzle and cold would make them miserable and, therefore, not as reliable in facing a mob as if they could be dry and warm. The ponchos were issued, the troops were enthusiastic about them, and the delegations got on with the business as soon as they knew they could be airlifted out if necessary.

"If you will reflect on this incident a moment, you will recognize that calm, steadfastness, instinct about a soldier's needs and concern for them, in addition to ability to inspire confidence turned something that might have been a shameful disaster into a minor, irritating event.

"I mentioned earlier that one of General Marshall's most unusual attributes—and one, I think, which added a great deal to his stature—was his recognition of the fact that Nature never stands still and that change is, indeed, one of the primary laws of life. His receptiveness to new ideas, which you have seen, for example, in the use of airpower and in the Marshall plan, was made easier by this philosophy, for he was not burdened with the attitude of mind which regards any change as a threat to the established order—or vested rights, if you choose—which must, therefore, be automatically, even blindly resisted.

"About 6 months ago I testified before a Senate committee regarding policy-making machinery in the special field of the Department of Defense. I expressed the opinion that the essential military attribute of close relationship between planning and operational responsibility existed and that proved operations machinery was currently in being; and, finally, that the departments were staffed, for the most part, with competent, specially trained officers whom we were fortunate to have in good supply. I suggested, however, that it seemed to be increasingly difficult to fit new feet into old boots; that there was, I thought, excessive staff layering and, obviously, far too many committees with the resultant trend toward a reduction in the authority of the individual which I greatly deplored.

"It may be that I place too much importance on men and not enough on the machine. I do not think so. But it is of no consequence anyway because events in the world are building up forces which will inevitably raise again the question of the proper organization of the services to meet the new situations which face us. The world is full of dangers, and the attitude toward change will be even more important than in the past.

"Whenever you look in the world today you find one great common denominator the increasing role Government is playing in every aspect of every man's life, everywhere. We do not like to admit it, but Government is getting bigger all the time—partly because big government is necessary to deal with big labor

and big business; partly because our people are asking the Government to do more for them each year; and, partly because Government by its very nature is a glandular grower.

"Now, to oversimplify things a bit, this means more Government expenses. More Government expenditures mean more taxes; or more economy and efficiency; or a mixture of both. Looking at the problem of national security with such calmness as I can muster, I cannot avoid the conclusion that world change has overtaken us and that, in a relatively few years, economic pressure alone will force us to reexamine our current organization and procedures.

"When that time comes, and I think it will come sooner rather than later, we will need the detached approach to the problem of what is best for national security that General Marshall exemplified and which won him universal respect. National security seems to me to be more complex than ever. I feel it is a problem we will have with us for generations to come and it is not helped in an open society by either an open mouth or a closed mind.

"It will most certainly not be solved by trotting out those tired old slogans of warnings about 'reduction of civilian control' and the 'man on horseback' that have been used to divert attention for generations. When you hear them just remember that the chiefs of the branches of the Army used the same 'man on horseback' argument against Secretary Elihu Root's reorganization plan which established the position of Chief of Staff of the Army.

"Nor is the problem likely to be solved by appointing several committees of distinguished citizens from remote walks of life. Such groups normally come to Washington ignorant of the problems and ways of Government and, by dint of concentration on committee procedures, remain in that happy state. Some may even be attracted by the title 'ad hoc committee' little realizing that it is merely a device used ad infinitum to obtain snap judgments ad nauseam.

"The solution will be found, I suppose, when necessity or good judgment make it abundantly clear that in national security the whole is more important than its parts.

"Having spoken in behalf of receptiveness to good new ideas or changes for the better, let me identify an area in which I hope you will permit no change to occur. Part of my inheritance from General Marshall is a feeling of real affection and admiration for the Army and the way it performs its manifold duties. The great traditions, which are handed down from generation to generation in the armed services, of duty, honor, loyalty, and dedication to the service of one's country are among the most admirable virtues of mankind. These have been kept alive by a dedicated and skilled group of officers who realize that self-discipline is one of the higher attributes of man. We simply cannot afford to lose these virtues. Our great schools and their standards must be nurtured and strengthened so that the code of excellence may be carried forward in a world which seems to have an increasing taste for the mediocre.

"My strong conviction about this results from my experience with you, of which I am proud, and because it was these traditions, training, and discipline, which I have just mentioned, that produced the young Army officer who became one of the greatest generals and greatest men of his time.

"Since I spoke at the outset of certain basic characteristics shared by General Marshall and Secretary Stimson, it is fitting and proper, I believe, that I should close my comments by letting the venerable and distinguished Secretary of War be heard again, through me, in his valedictory remarks made at a press conference in September 1945.

"Hear Mr. Stimson's words: 'General Marshall's devotion to the Nation he served was a vital quality which infused everything he does. During the course of a long lifetime, much of it spent in positions of public trust, I have had considerable experience of men in government. General Marshall has given me a new gage of what such service should be. The destiny of America at the critical time of its national existence has been in the hands of a great and good citizen. Let no man forget it.'"

APPENDIX 7

THE SECRETARY OF DEFENSE,
Washington, May 13, 1955.

Memorandum for the Secretary of the Air Force.

Since your presentation of the problem to me last week, I have discussed the question of more adequate financing for the Air Force public works program for 1956 with the Director of the Bureau of the Budget.

He recognizes that the urgent needs of the Air Force should be provided for, but indicates that new authority cannot be considered unless definite actions are taken to accomplish corresponding savings in procurement of stock fund type items along lines suggested in his letter, a copy of which is attached.

Action taken by the House to rescind \$300 million of the funds in the Air Force stock fund complicates the problem. I assume that unless the Senate restores a sufficient amount of capital for the fund, the \$225 million would not be available for transfer to public works as previously discussed.

Additional discussions with the Bureau of the Budget have indicated that the Director will concur with the request to increase Air Force public works appropriations for 1956 by \$225 million from \$975 million to \$1,200 million, provided the Air Force agrees to take the actions outlined below:

1. Enlarge stock fund operations as of July 1, 1955, to include all common use standard stock items. In view of the short time remaining to prepare for such expansion, the fund need not be projected to the station level until fiscal year 1957 unless it appears feasible to accomplish this sooner.

2. Operate the stock fund expanded to cover as many consumption-type items as possible in such a manner as to make every effort to reduce anticipated expenditures and to generate savings of \$225 million by the time the last \$225 million of the fiscal year 1956 public works program would be required. The additional funds for public works would be apportioned in such a manner as to assure that these savings would be generated prior to the time the additional \$225 million of public works funds would be expended.

3. Make an immediate estimate of the amount of cash which should be retained in the stock fund in order to establish the fund as indicated above on July 1, 1955. This estimate would include an indication of the portion of the \$300 million proposed for rescission by the House version of the appropriation bill, which should be appealed by the Department of Defense for restoration in the Senate. This estimate should be furnished immediately to the Assistant Secretary of Defense (Comptroller) and the Bureau of the Budget.

In order to assure that the additional \$225 million is added to the public works appropriation bill, it is necessary that the Air Force take immediate action to implement the above.

(Signed) C. E. Wilson,
(Typed) C. E. WILSON.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 12, 1955.

The Honorable the SECRETARY OF DEFENSE.

MY DEAR MR. SECRETARY: Consideration has been given to your verbal request to increase the amount estimated to be required for military public works appropriations for fiscal year 1956 by \$225 million to provide for urgent needs of the Air Force. This would bring the estimated appropriations to be requested for public works to a total of \$2,235 billion.

The original proposal contemplated transferring \$225 million from excess capital funds in the Air Force stock fund on the basis that immediate efforts to expand the use of the stock fund would generate sufficient excess capital to cover the transfer.

Recent action by the House Appropriations Committee in proposing to rescind \$300 million from the Air Force stock fund prevents, if adopted, transfer of funds for this purpose. This means that the increase would have to be provided by new obligational authority above that contemplated in the budget.

It is recognized that the urgent needs of the Air Force should be provided for; however, new authority cannot be considered unless definite actions are taken to accomplish corresponding savings in procurement by better utilization of inventories such as might be accomplished by establishing stock fund control over

a wider area. It is our understanding that the additional funds for public works would not be apportioned until these savings were generated and each project reviewed for critical need before being undertaken.

Sincerely yours,

ROWLAND HUGHES, *Director.*

APPENDIX 8

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.

THE WHITE HOUSE,
Washington, June 8, 1954.

To: The DIRECTOR OF THE BUREAU OF THE BUDGET, THE SECRETARY OF DEFENSE,
the ADMINISTRATOR OF GENERAL SERVICES:

By virtue of the authority vested in me by section 205(a) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 481 (a)), there is hereby revoked the memorandum of the President dated July 1, 1949, and directed to the Director of the Bureau of the Budget, the Secretary of Defense, and the Administrator of General Services, copy of which appears on page 108 of the pamphlet of the General Services Administration dated October 1952 and entitled "Federal Property and Administrative Services Act of 1949, as amended."

DWIGHT D. EISENHOWER.

THE WHITE HOUSE,
Washington, July 1, 1949.

To All Executive Agencies:

By virtue of the authority vested in me by section 205(a) of the act entitled "An act to simplify the procurement, utilization, and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes," approved June 30, 1949 (the Federal Property and Administrative Services Act of 1949) it is hereby directed that:

1. In cooperation with other interested agencies, the Administrator of General Services shall institute studies and surveys to determine the extent to which existing policies, procedures, and directives heretofore promul-

gated and remaining in force under section 501 of the act, should be modified or revoked in the interest of promoting greater economy and efficiency in accomplishing the purposes of this act. Careful attention shall be given to determining the degree of centralization in the General Services Administration to be attained in the performance of the functions involved. When these studies and surveys have been completed and after consulting with the interested agencies, the Administrator shall prescribe such regulations as may be necessary to implement the determinations resulting from such studies and surveys.

2. After consultation with the Bureau of the Budget and other executive agencies, and also with the General Accounting Office in respect of such matters as may be appropriate, including matters affecting its functions under sections 205(b) and 206(c) of the act, and at the earliest possible date, the Administrator of General Services shall establish such standards, prescribe such regulations, and prepare and issue such manuals and procedures as may be necessary to guide all executive agencies in ascertaining whether their operations in the field of property and records management are efficient and economical as well as consistent with established Government policies.

3. In accordance with directives to be issued by the Administrator of General Services, each executive agency shall promptly institute surveys to determine excess personal property and that portion of excess real property, including unimproved property, under their control which might be suitable for office, storage, and related facilities, and shall promptly report to the Administrator as soon as each survey is completed.

4. Each executive agency shall carefully plan and schedule its requirements for supplies, equipment, materials, and all other personal property in order that necessary stocks may be maintained at minimum levels and high-cost small-lot purchasing avoided.

5. Under section 201(c) of the act, executive agencies are permitted to apply exchange allowances and proceeds of sale in payment of property acquired. The Administrator shall promptly prescribe regulations specifying the extent to which executive agencies may exercise this authority, and pending the issuance of such regulations, no executive agency shall exercise this authority except to the extent permitted by, and in accordance with the provisions of, statutes in force prior to the taking effect of this act.

6. Section 502(d) of the act provides that certain programs and functions now being carried on by various executive agencies shall not be impaired or affected by the provisions of the act. However, the attention of these agencies is called specifically to the purposes of this legislation and they shall, insofar as practicable, procure, utilize and dispose of property in accordance with the provisions of the act and the regulations issued thereunder in order that the greatest overall efficiency and economy may be effected. These same agencies shall also cooperate with the Administrator of General Services in the making of surveys of property and property management practices and in the establishment of inventory levels as provided in section 206(a) (1) and (2) of the act.

HARRY S. TRUMAN.

THE WHITE HOUSE,
Washington, July 1, 1949.

To the DIRECTOR OF THE BUREAU OF THE BUDGET, THE SECRETARY OF DEFENSE, AND THE ADMINISTRATOR OF GENERAL SERVICES:

By virtue of the authority vested in me by section 205(a) of the act entitled "An act to simplify the procurement, utilization and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes," approved June 30, 1949 (the Federal Property and Administrative Services Act of 1949), it is hereby directed that:

1. Pending determinations made in the course of the studies hereinafter directed to be instituted, the several departments and agencies constituting the National Military Establishment shall continue to procure through the Administrator of General Services such supplies, materials, equipment, and other personal property, and have performed by the Administrator such related functions of the types specified in section 201(a) (1) of the Federal Property and Administrative Services Act of 1949 as were customarily

procured or performed for the departments and agencies of the National Military Establishment by the Bureau of Federal Supply prior to the taking effect of said act. Until further order of the President, the Secretary of Defense shall not, without the prior approval of the President, issue any order or directive exempting the National Military Establishment, in accordance with the proviso in section 201(a) of the Federal Property and Administrative Services Act of 1949, from action taken or to be taken by the Administrator of General Services under said section.

2. The Administrator of General Services, the Secretary of Defense, and the Director of the Bureau of the Budget (1) shall forthwith undertake, and diligently pursue, studies aimed at developing areas of understanding with respect to the extent to which the National Military Establishment should be exempt from the jurisdiction of the Administrator under sections 201 and 206 of the Federal Property and Administrative Services Act of 1949, and (2) shall present any appropriate recommendations to the President.

HARRY S. TRUMAN.

GENERAL POLICY STATEMENT ON DEVELOPMENT OF AREAS OF UNDERSTANDING BETWEEN GENERAL SERVICES ADMINISTRATION AND DEPARTMENT OF DEFENSE PURSUANT TO PUBLIC LAW 152, 81ST CONGRESS

The President's memorandum of July 1, 1949, to the Secretary of Defense, Administrator of General Services, and the Director of the Bureau of the Budget, directed that areas of understanding be developed between the General Services Administration and the Department of Defense with respect to the application of the Federal Property and Administrative Services Act of 1949 (Public Law 152, 81st Cong.). Considerable progress has been made in certain areas. Completion of the task will be expedited by acceptance of basic principles.

It is a necessary part of our national defense to keep appropriations within bounds. Our economy requires it; the President and the Congress rightfully expect it consistent with the fulfillment of primary missions. The preservation of our nonrenewable resources from unnecessary exploitation in our time will mean that future generations may also have the substance of defense.

Modern war is total war involving all agencies and segments of our economy—farmers, factory workers, professional groups, as well as the traditional military forces. Within the Government, many, if not all, civilian agencies have wartime functions, and a careful planning and providing for their needs is essential to a consideration of the whole problem.

The accomplishment of this task requires detailed examination of many areas of effort and assignment of tasks to both military and nonmilitary agencies. While it is recognized that the great bulk of military procurement in both peacetime and wartime will continue to be handled by the military departments themselves, nevertheless there are certain procurement areas and other areas of effort, such as certain parts of surplus property disposal, real property management, traffic management, etc., where it will be important during peace and war for the military departments to continue to depend upon the General Services Administration. Because effective military supply planning covers both current peacetime operations and wartime functions, it appears essential that if sound planning is to be done the military departments must have assurance that the General Services Administration will continue in existence in wartime and will be protected against undue inroads by selective service. To develop "areas of understanding" for peacetime use only would greatly complicate the problem.

In a war economy, especially, each item should be considered as being a scarce item. Transportation, storage, manpower, and other scarce components are involved in producing items which may be fabricated from abundant basic materials. We are a have-not Nation with respect to some materials and are fast reaching that status with respect to some once-abundant materials.

All agency requirements in peace and in war should be coordinated so as to constitute a minimum impact upon the Nation's economy.

The military and nonmilitary supply systems must be coordinated at both the policy and operation levels so that the constituent agencies will not compete against each other for their requirements thus creating artificial scarcities and inflationary prices. This objective can best be attained by considering all phases of Federal Government supply as a part of an overall supply management con-

cept, rather than by isolating the segments and making each the object of special administrative or statutory attention. To accomplish this end there will be required wholehearted cooperation between the military and the civilian agencies.

Every effort will be made by the undersigned to expedite the development of areas of understanding within the framework of the above policies.

JANUARY 12, 1950.

LOUIS JOHNSON,
Secretary of Defense.

JANUARY 11, 1950.

JESS LARSON,
Administrator, General Services.

JANUARY 10, 1950.

FRANK PACE, JR.,
Director, Bureau of the Budget.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., February 13, 1960.

HON. DWIGHT D. EISENHOWER,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: For many years I have been interested in the possibilities of making large economies in the Government in the areas of common supply and services which consume a large portion of the annual budget and where such great duplication occurs. It will be recalled that the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958 vested the Secretary of Defense with great authority to bring about necessary improvements in the Department of Defense. I believe that this amendment conforms to your own thoughts on the subject.

However, in addition to the need for improvement in the DOD, there is need for improvement in those areas which are common to both the civilian and military branches of the Government. This need was recognized in the passage of the Federal Property and Administrative Services Act of 1949, Public Law 152, 81st Congress. This act was developed jointly by the Budget Bureau, the expenditures committees of both Houses of Congress, and the First Hoover Commission, and it had great public support.

The most difficult and perhaps the most important part of the act concerned the relationships between the military agencies and a new General Services Administration. After many months of negotiation, section 201(a) was developed which gave the Administrator of the new agency certain authorities in common areas, but with the proviso that the Secretary of Defense might exempt the Defense Department from the Administrator's actions unless the President otherwise directs.

It now appears that GSA is able to handle much more common supply and service work for the entire Government, but it requires a stable foundation upon which to operate without the prospect of the present or a future Secretary of Defense exempting the DOD from the application of the GSA programs.

I am therefore of the opinion, in which many others join me, that it would be advisable if the Secretary of Defense were directed not to exempt the DOD from programs determined to be Government-wide in scope, but to work cooperatively in the common interest.

Your reaction to this proposal will be greatly appreciated.

Very respectfully yours,

JOHN W. McCORMACK.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., May 31, 1960.

HON. DWIGHT D. EISENHOWER,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: Reference is made to my letter of February 13, 1960, concerning the advisability of directing the Secretary of Defense not to exempt the Department of Defense from provisions of section 201(a) of the Federal Property and Administrative Services Act in connection with Government-wide supply and service programs.

Since I have not received an answer to my letter and a number of important supply and service programs affecting both the Department of Defense and General Services Administration are under consideration I would appreciate learning of your attitude concerning my proposal. I consider that large economies with greater efficiencies will ensue from better management of the Government's supply and service activities but solutions are not possible without the necessary integration as between civilian and military branches of the Government.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

THE WHITE HOUSE,
Washington, June 16, 1960.

HON. JOHN W. McCORMACK,
House of Representatives, Washington, D.C.

DEAR MR. McCORMACK: This is in further response to your letter to the President, dated February 13, in which you proposed that the Secretary of Defense be directed not to exempt the Department of Defense from programs determined to be Government-wide in scope.

As your letter indicates, cooperation among agencies is essential for effective and economical performance of Government-wide programs such as the management of common supply items used by civilian as well as military agencies. The administration agrees with you that sustained progress can be accomplished more effectively if policies and administrative arrangements are clearly understood and formalized for continuity, especially during periods when continuity is difficult due to unavoidable turnover among top officials and their principal staffs. The Director of the Bureau of the Budget has been asked to take the lead for developing on a more permanent basis the continuing working arrangements for joint cooperative efforts to improve the management of supply programs. As you know, a similar approach involving the Treasury Department, the General Accounting Office, and the Bureau of the Budget has been helpful in dealing with Government-wide fiscal and accounting problems.

A directive somewhat along the lines you have proposed was issued in 1949. Undoubtedly it served a useful purpose while the newly created General Services Administration was being established. That directive was rescinded in 1954, however, because it was not accomplishing the objective of improving inter-agency cooperation. Since then, effective working relationships have been established between the Department of Defense and the General Services Administration and there has been a steady and substantial increase in the volume of supplies furnished to the Armed Services by the General Services Administration. The rate of progress in that respect has been more substantial since 1954 than at any time previously. The volume for the current fiscal year will be about 4½ times the volume in 1954.

During the past few months, the Department of Defense and the GSA have been actively negotiating for a much more substantial transfer of supply responsibility for "common use" supplies to the GSA. An effective working agreement has been reached and the agencies are proceeding with detailed plans and schedules for orderly transfer of supply responsibility for the selected items. Enclosed is a copy of the agreement under which the transfer of responsibility is moving ahead.

Your long-standing interest and constructive approach toward these problems are appreciated.

Sincerely,

GERALD D. MORGAN,
The Deputy Assistant to the President.

APPENDIX 9

DRAPER-STRAUSS REPORT

Exhibit F

JANUARY 29, 1945.

RÉSUMÉ OF CONGRESSIONAL INTEREST IN COORDINATION

As background material for the present study of closer procurement coordination, this memorandum reviews the actions and discussion on the general subject of such coordination by the Congress in the last 25 years.

In the period of World War I, pursuant to the act of August 29, 1916 (39 Stat. 649), President Wilson established the Council of National Defense "for the coordination of industries and resources for the national security and welfare." to consist of the Secretaries of War, Navy, Interior, Agriculture, Commerce, and Labor. Since then, the desirability of joint action by the War and Navy Departments has been investigated extensively on at least 12 different occasions. While some of the proposals under study have involved the merger of the War and Navy Departments into a single Department, and others have suggested taking procurement completely away from the two Departments and vesting it in a third agency, the differences and duplication in procurement have bulked large in all of these proposals and investigations.

Investigations 1921-38

Following the discussion in early 1920 of a suggestion that the Navy Department should operate all transport services for the Armed Forces, the Congress passed a joint resolution approved December 17, 1920, creating a Joint Committee on the Reorganization of the Administrative Branch of the Government, composed of a representative of the President as Chairman, and three Senators and three Representatives. This joint committee in 1922 submitted to the War and Navy Departments for comment a proposed consolidation of the two Departments, based in large part upon recommendations contained in a report upon the "Reorganization of the Administrative Branch of the National Government," formulated by the Institute for Government Research in March 1921.

From the standpoint of business organization and procedure, the Institute concluded that the duplication and additional expenditure involved in maintaining two "separate and independent" services, for the manufacture or purchase of munitions, equipment, and supplies of similar character, the storage, issue, and transportation of these supplies, the recruiting of personnel, the keeping and auditing of accounts, the preparation and rendition of reports and returns and the handling of a vast amount of correspondence and records involved, could not be justified. As an example of waste, the Institute stated: "Though the problems of ordnance and ammunition supply are so largely the same for the two services, we have separate establishments for the manufacture or purchase of guns, powder, shells, and other munitions of war." Representatives of the Army General Staff and of the Navy General Board who reviewed the Institute's conclusions and recommendations in 1922 characterized them as superficial and mis-leading.

In 1924, President Harding revived the idea of a single department and recommended to the Joint Committee on the Reorganization of the Administrative Branch of the Government that the Army and Navy be combined in a single department. The joint committee rejected this suggestion. In 1925 the Lampert committee reported in favor of a single Department for the Armed Forces. In 1925 and 1926 the Morrow board and the House Military Affairs Committee, after investigations, opposed a merger of the two Departments.

In 1931 and 1932, the House Committee on Expenditures in the Executive Departments considered and reported favorably upon several bills which proposed a Department of Defense (H.R. 14060, 71st Cong., and H.R. 4742 and H.R. 7012, the so-called Williamson and Byrns bills, 72d Cong.). The House of Representatives, however, rejected the proposal by a vote of 153 to 135. Two further groups, the Joint Committee on Duplication of Effort in the Army and Navy in 1932, and the Baker board in 1934, again studied the matter, and concluded that a single department was not in the best interests of the Nation.

Ministry of Munitions

Shortly after the attack on Pearl Harbor and the declaration of war on Japan and Germany, plans for a "Ministry of Munitions" to be charged with procure-

ment for all of the war agencies were seriously considered. The Tolan Committee on Migratory Labor, of the House of Representatives, in December 1941 and in 1942 sponsored legislation for the creation of a single civilian agency to control all civilian and war production: the Senate Education Committee in 1942 held hearings, and reported favorably, upon a similar proposal.

This matter continued to agitate the Congress in early 1943. The Kilgore bill (S. 607, 78th Cong.), largely based on the earlier bills (H.R. 7742 and S. 2871, 77th Cong.), was discussed at some length upon the Senate floor and by several committees. The Kilgore bill proposed an Office of War Mobilization and as a part thereof an Office of Production and Supply, with complete authority over war procurement. The War and Navy Departments opposed this measure as fundamentally unsound in that it removed from the responsible military leaders control of procurement of the weapons and munitions required to wage war. The bill was discarded upon establishment of the Office of War Mobilization by Executive Order No. 9347 of May 27, 1943, but reverberations of the concept of a Ministry of Supply were heard thereafter from time to time on the floors of the Congress.

Woodrum committee hearings

In April and May of 1944, overlapping and waste in the War and Navy Departments were discussed before the Woodrum committee, which held hearings upon the proposal to establish a single Department of Armed Forces. Emphasis was placed throughout the hearings upon the advantages of a single procuring agency for weapons used by both the Army and Navy. At the conclusion of the hearings, Representative Wadsworth of New York made the following statement:

"* * * let's take a look at what we call our postwar period. Let us estimate some of the elements which will be influential in swaying the judgment, rightly or wrongly, of the people and the Congress of that day. When this war is over it may be that we shall have run up a national debt approaching \$300 billion. * * * Already we visualize other financial obligations or commitments. * * * And do not forget that while these expenditures are going on, the taxpayers, millions of them, crying for some measure of relief, may turn desperately to find a place where big slashes can be achieved. It is more than probable that their attention will be riveted upon the military services and that the cry will go up all over the country that there aren't going to be any more wars; that we do not need more than a flimsy skeleton of a national defense structure.

"That's what happened in 1920. That is what happened after every war in which we have engaged. I do not need to remind you of the cruel, bitter price which our country has paid in lives and treasure as a result of that sort of performance back through the years. In all seriousness I say to the men in responsible command in all our military services that they must look ahead and be prepared to justify before the Congress and the people of that day the maintenance of adequate military forces. And in preparing the services against that day they must cooperate one with the other in every conceivable effort in the reduction of expenditures, to wipe out all unnecessary duplication, to eliminate waste. * * * the solutions which we recommend may well be inadequate unless the services themselves join hands, one with the other, and help us. By so doing you may contribute the greatest measure of assistance to us in our work. But more important still, you may erect a sound and understandable defense against those traditional postwar tendencies to which I have referred. Do not forget what happened in the past" (hearings, p. 318).

The Woodrum committee's report dated June 15, 1944, concluded that the time was not opportune "to consider detailed legislation which would undertake to write the pattern of any proposed consolidation, if indeed such consolidation is ultimately decided to be the wise course of action" (H. Rept. No. 1645, 78th Cong. p. 4).

During the course of the hearings, the Joint Chief of Staff created a special committee to examine into a reorganization of the Government's national defense machinery, and in their memorandum stated: "If the question of unwarranted duplication is neglected too long, it may furnish the opportunity for forcing upon the military services an ill-considered and inefficient organization."

Other congressional action

The Congress has already created, in four statutes enacted during the past year, four overall agencies for supervising various phases of wartime procurement. The War Contracts Price Adjustment Board (Public Law 235, 78th Cong.), the Office of Contract Settlement (Public Law 395), the Surplus Property

Board (Public Law 457), and the Office of War Mobilization and Reconversion (Public Law 458), all grew out of previously established executive agencies, and many of their provisions had the full concurrence of the War and Navy Departments. Nevertheless, taken as a whole, they are clearly indicative of a determination by the Congress to require a greater degree of coordinated effort on the part of the two military establishments.

Improvement in coordination of the procurement activities of the two Departments is a matter of current interest to the Congress. In its report on the accumulation of surplus war supplies dated December 19, 1944, the Special Committee To Investigate the National Defense Program make the following recommendations to the armed services:

"The committee recommends, both for the purpose of improving supply and for the purpose of reducing to the minimum the economic problems involved in the disposal of surpluses, that the services devote intensive attention to improving the efficiency of the several supply functions as follows:

"1. That like articles used by the various branches of the armed services, and the subdivisions within each, be further standardized as to specifications.

"2. That procurement of such like items be further centralized in one procurement agency.

"3. That interchangeability information be further developed and utilized.

* * * * *

"5. That the handling of transportation and warehousing be improved.

"6. That inventory and stock control—the regulating value of the supply system—and the liaison between offices stating military requirements, offices in charge of inventories, and procurement offices must be improved, to the end that modification of procurement and declaration of surpluses can be speeded up (S. Rept. No. 10, pt. 20, 78th Cong., pp. 2, 3).

Even more recently two bills, S. 84 and H.R. 86, have been introduced in the new 79th Congress which would establish a single Department for the Armed Forces.

(Signed) Robert R. Bowie,

(Typed) R. R. BOWIE,

Lieutenant Colonel, J.A.G.D.

(Signed) Richard G. McClung,

(Typed) R. G. McCLUNG,

Lieutenant Commander, U.S.N.R.

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APPENDIX 10

[From the New York Times, Sept. 26, 1952]

TEXT OF EISENHOWER ADDRESS ON "FAMINE OR FEAST" DEFENSE POLICY

Following is the text of an address by Gen. Dwight D. Eisenhower last night at a Republican rally in Baltimore as recorded by the New York Times:

"Governor McKeldin, ladies and gentlemen, it is true that I was not nominated for the Presidency in this armory, but I did the next best thing—I got the Governor of Maryland to nominate me.

"First, let me say a word about the delegation that is standing for various offices from this State. It is a particular pleasure to be introduced by Governor McKeldin and to appear on this platform with your able Senator, John Marshall Butler. I am quite sure that you will send to the Senate that able and eloquent Congressman J. Glenn Beall.

"We need a top-to-bottom victory this fall. To return this country to good government, you will elect such well-qualified candidates from this city as Jerry Toula, Samuel Hopkins, and William F. Laukaitis, and you will elect the other Republican candidates standing for Congress from Maryland.

"Now, ladies and gentlemen, in prior talks during this campaign I have discussed the foreign situation and national policies applicable thereto. On those policies, military plans and organization are necessarily based.

"Tonight I want to talk to you very seriously about the defense of our country. I want to talk to you about getting the most defense at less cost with the least delay.

"Our people's need for a stout defense is beyond debate.

"I pledge to you here and to you in your homes everywhere that we who are engaged in this crusade for good government will see to it that America is always safe.

"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.

"Public debate on this subject, above all others, must be candid and fair: The 156 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 three personal convictions that I hold to be true:

"First, our defense program has suffered from lack of farsighted 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.

"A large part of what I will have to say tonight is essentially critical, although I hope constructively critical. By this criticism I do not intend to belittle the abilities and devotion of the Chiefs of Staff and the other thousands of men and women in uniform and in civilian clothes in our Defense Department. They are among the best, those people, those men and women are among the best, if not the best, of their kind in the world.

"What I do mean to criticize is routine in planning and operation, failure to establish cleancut lines of authority, and failure in preparatory work to combine industrial and military leadership. Finally, I mean to criticize lack of imagination and firmness in the overall political direction which guides all security planning.

"We have never been a military-minded people. In time of peace, we have always cut the Military Establishment to the bone, then to the marrow. In time of war, we have said, 'Let the professional soldier take care of it.' This attitude has encouraged the military, accustomed to famine or feast, to try to take advantage of crisis.

"Resulting frenzied expansion has meant disorder, duplication, and waste. It has meant an attempt, for example, by our Air Force to buy 20,000 superdeluxe desk chairs at \$10 above the standard model price. It has meant our Navy laying in a 50-year supply of anchors all at once. It has meant our Army buying enough front-axle gaskets for jeeps to last one full century.

"This pattern has been bad enough in the past. In today's world of continuing tension, it is intolerable. For we no longer have clear, precise lines between a time of peace and a time of war. We have to live and work and plan in a twilight zone between the two. Complexity creates confusion everywhere. Generals who used to be trained to concentrate on military decisions feel compelled to consider economic factors.

"Those civilians who should exercise authority in military matters feel hesitant because of their lack of specialized knowledge and experiences. In a threatened emergency, Congress is reluctant to question the demands of the military. When no emergency threatens, the entire subject is sadly neglected. And so there is shadowboxing with the security problems that crowd our twilight existence.

"Against this background we must promptly face the overriding issue of security with solvency. For next November, the American people are electing leaders not for just another ordinary term, but for years of decisive destiny.

"The critical fact we must face is this: The cost of security today amounts to 75 percent of our enormous national budget. This means high taxes. Beyond this, the administration finds in this fact its alibi for inflation and deficits and for the strain put upon our whole economy.

"Can this burden be lightened without endangering national security?

"A Democratic administration, staid and self-satisfied from being too long in power, complacently says: No, nothing can be done.

"This is not an American answer. Our answer is: Yes, much can be done.

"Let us begin with the fundamentals of the budget. Out of the \$80 billion our Government is spending this year a few items like the \$6 billion for interest on the national debt can't be reduced. From the other \$14 billion for nondefense purposes, real savings can be made by the use of business-like practices under a clean administration.

"But the big spending is, of course, the \$60 billion we pay for national security. Here is where the largest savings can be made. And these savings must be made without reduction of defensive power. That is exactly what I am now proposing. To accomplish this will require the help of civilian leaders—business, labor, and professional—who really know their jobs.

"Their wisdom and experience must be combined with the wisdom and experience of military men from the three services. They must have the full support of the President and enjoy the confidence of Congress.

"To begin so comprehensive an overhauling, we need a new administration—a new administration that will call a halt to stop-and-start planning; an administration that will not demobilize and then hurriedly remobilize; an administration that will not swing from optimism to panic; and an administration that will plan for the future on something more solid than yesterday's headlines.

"BUNGLING ON BASES DEcriED

"This kind of a new administration, by restoring the pride of Americans in their government, will be able to command a cross-section of this country's best brains and best judgment. Under attack by men and women of this caliber, the problems of the Defense Department and other departments can be brought under control.

"Now let me give you one example of the kind of thing Americans want changed: The bungling involved in the creation of our Morocco airbases.

"We need bases in Morocco. We have needed them ever since the Soviet Union made clear that it had no intention of letting the world return to real peace. To build bases of this type, economically, takes 2 to 3 years.

"What did we do? We did not start on these bases at the time Soviet intentions became clear. We waited until 1951, 6 months after the war in Korea broke out. After all this foot dragging, the administration then insisted on a 'crash program'—get it done fast whatever the cost. The result: we got two bases for the price of five.

"The running warfare between Congress and the White House has made such blundering even more costly to us Americans. Both should share mutual confidence and common purpose. Cooperation between them must be sparked by executive leadership.

"We have had little of such leadership. Special interests in the armed services have repeatedly been carrying their appeals to Congress—sometimes without the knowledge of any of their civilian superiors. Supplemental appropriations by Congress have been vetoed, passed over a veto, and sometimes then held back by the President. Service disagreements have become public brawls.

"This is not a partisan judgment. Our failures have been painstakingly documented in the reports of the Senate Preparedness Committee, headed by a Democrat. Speaking of our Air Forces, that subcommittee summed it up in these words: 'A saga of bad programing, neglected warning, lack of coordination, abuse, misuse, and disuse of power.'

"That is how a Democrat describes a part of the Washington mess.

"I do not recite this list of failures with any partisan pleasure. I cite them because they are failures too long hidden from the public. I cite them also because the next administration must promptly begin setting things right.

"We are all—even the most professional soldier—somewhat bewildered by the facts before us. We all know the catalog of wonders science has lately written: atomic energy, guided missiles, jet transportation spanning the world in magnificent contempt of mountains, seas, and deserts.

"No less sobering is the realization that those awesome weapons can be wielded by some of the least skilled people of the world. The peoples of Asia in a short time have learned the difference between the oxcart and the airplane. Our jet pilots in Korea find nothing 'backward' in the skill of Chinese pilots—if indeed they are all Chinese pilots—flying their MIG's into combat at speeds almost as fast as sound itself.

"NEW APPROACH URGED

"To meet the challenge of these fast-moving events we must have a new approach.

"First: We must press for a weapons program that is realistic. We cannot pretend to do everything in every field all the time. Our judgment in weapon development must be sure and sound and related to tactical needs. To do this the professional fighting man requires the advice and knowledge of both industry and labor.

"Whenever a new weapon comes from the laboratories, all services—sometimes understandably—demand the right to use it. Stranger than this is the almost inevitable demand of each service to do the research, development, and production work on new weapons. Each believes that it can do the work best. In this matter prompts adjudication among the services is mandatory—otherwise you will find all three engaged in spending your money for a single need.

"Second. To save money and increase efficiency we must emphasize simplicity in design. Back in February 1948, when I left the office of Chief of Staff, I wrote as follows: 'A program for research and design of new equipment is an obvious necessity, but simplicity should be stressed more than has been our practice. We Americans are inclined to confuse the biggest, most complicated, and most durable with the best. Whereas in war, the simple and expendable weapon may, in the light of time and production facilities, be the most satisfactory.' Unfortunately, ladies and gentlemen, I could write the same today with perfect truth.

"Modern war teaches one sure lesson that today's best weapon is out of date tomorrow. The progress of science warns against putting too much confidence into today's best weapon for soon it may be obsolete.

"Third: More civilian counsel and direction must be called into the weapons production program. In this field again it is impossible for the professional to make the exclusive judgment. The interplay of labor, tax, production, and economic factors requires a pooling of expert civilian advice.

"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 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. But that unity must also extend to the procurement and administration of all the costly materiel and equipment of modern warfare. It was the hope of all of us who worked to achieve the passage of the National Defense Act of 1947, that this kind of unity was in the making.

"'LOOSE WAY OF OPERATING'

"This has not proved to be the case. Such unity as we have achieved is too much form and too little substance. With three services, in place of the former two, still going their separate ways and with an overall civilian staff frequently unable to enforce corrective action, the end result has been not to remove duplication but to produce triplication.

"All this must be brought to an end.

"Our task, however, goes still further. 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, functions, acts of the 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 Marine Corps.

"Their task should be to design an overall scheme of national security best suited to our inventive, productive, and military genius and to our geographic and strategic position in the world.

"SCOPE OF COMMISSION

"The mandate of such a commission should include the whole matter of military manpower. Our recruiting for the armed services must be done in the fairest, most economical way to fit the demonstrated needs of the Nation and the individual. We must never again be caught in the position of sending untrained recruits to the battlefield.

"Ladies and gentlemen, that is a murderous mistake, as every soldier knows. But it seems clear that so long as we are forced to employ the draft because of current combat requirements, we cannot at the same time establish any form of training for all our young men. To attempt this would create more difficulty and injustice than now exists.

"My second proposal relates to the National Security Council. This body is charged by law with high-level planning for the security of the Nation. We have seen how that planning has failed time and again these last years. The failure of this agency to do the job for which it was set up—to make the right plans in time—produces waste on the grand scale.

"I believe that membership in the National Security Council should not be limited to Cabinet officers and heads of administrative agencies. These men are already burdened by the duties of their own offices.

"The National Security Council, as presently constituted, is more a shadow agency than a really effective policymaker. That, I believe, can be corrected by appointing to it civilians of the highest capacity, integrity, and dedication to public service.

"There is no slick slogan, no magic formula, to give us the combination we need—security and solvency. But intelligence and determination can show us the way. My sober conviction is that action along the lines I have indicated, in the absence of radical change in world conditions, will soon begin to reduce expenditures and eliminate the Federal deficit. This is a first step toward tax reduction.

"Before us lies the realistic promise of achieving both military strength and economic strength. This is the only way to make secure the freedom that we so proudly hail.

"If the experience, ladies and gentlemen, of 40 years in the military service of my country can help bring security with solvency to my fellow citizens, I am yours to command."

APPENDIX 11

HOUSE OF REPRESENTATIVE,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., December 15, 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. Lamphier, 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, 1950, Mr. T. P. Fike's communication (Supply and Logistics—DE) of July 27, 1954, to Congressman Riehlman, his letters of September 3 and 20, 1954, to Congressman George P. Miller, those of November 10, 1954, and January 4, 1955, to Congressman Harden and your press releases Nos. 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. Lamphier'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. Lamphier's letter, with related correspondence to those intimately concerned and to the press.

Sincerely yours,

JOHN W. McCORMACK,
Majority Leader.

WASHINGTON, N.C., *December 22, 1955.*

MR. CHARLES E. WILSON,
*Secretary of Defense, Department of Defense,
Washington, D.C.*

DEAR MR. WILSON: Four years ago the Bonner committee made an intensive study of "Military Supply" and particularly the common use items. We were very much interested in having the Department of Defense determine if integration could not be effected in the buying, storing, and issuance of medical items.

Secretary Lovett very cooperatively started a "test" at Alameda, Calif., whereby the Army acted as the single manager for the storage and issuance of these items to the services from a common depot. The "test" was to last 6 months but continued for almost 3 years. Finally it was discontinued in November 1954 presumably as a result of change in policy as stated in C. S. Thomas' memorandum of November 13, 1953, to the services and Pike's letter of July 17, 1954, to Congressman Riehlman, and his letters of September 3 and 20, 1954, to Congressman Miller and those of November 18, 1954, and January 4, 1955, to Congressman Harden.

I am in receipt of a letter dated November 9, 1955, to Congressman McCormack and a copy of Directive 5160.11 which indicate that you are now going to handle subsistence on a "single manager commodity" basis with the Army as manager.

Will you please advise as to present plans for medical items? I am sure you realize my personal interest in this class of supply in view of the great time and effort devoted to it in 1951-52. Also, please advise as to overall plans with respect to other common classes of supply.

I would consider it appropriate if you give this letter your personal attention.

Very truly yours,

HERBERT C. BONNER.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
LEGISLATIVE AND PUBLIC AFFAIRS,
Washington, D.C., December 29, 1955.

HON. HERBERT C. BONNER,
House of Representatives.

DEAR MR. BONNER: Secretary Wilson has asked me to acknowledge your letter of December 22, concerning the Department of Defense handling of subsistence on a "single manager commodity" basis with the Army as manager.

Your letter has been referred to the Assistant Secretary of Defense (Supply and Logistics) with the request that a reply be forwarded directly to you.

Sincerely yours,

WADE M. FLEISCHER,
*Colonel, USAF,
Director, Office of Legislative Liaison.*

U.S. SENATE,
Washington, D.C., December 22, 1955.

HON. CHARLES E. WILSON,
Secretary of Defense,
Washington, D.C.

DEAR MR. SECRETARY: Along with Congressman Herbert C. Bonner, I had a part in the enactment of what came to be known as the O'Mahoney amendment directing that a single manager system of storage and handling be set up in your Department for common use items.

I was deeply disappointed when in 1954 you gave up this centralized treatment and single manager system for medical supplies, and now I am bewildered in going over the file which Congressman John W. McCormack sent me to find that you are apparently establishing it for food and subsistence.

I should like to inquire what is being done, if anything, to integrate the handling of common use items as contemplated in the law and spelled out in the Senate report. I think there should be a central plan and that it should be in conformity with the expressed will of Congress.

I wish heartily to second the position of Congressman John W. McCormack.
Faithfully yours,

PAUL H. DOUGLAS.

APPENDIX 12

STRENGTHENING THE DIRECTION, AUTHORITY, AND CONTROL OF THE SECRETARY OF DEFENSE

SEC. 3. (a) Section 202(c) of the National Security Act of 1947, as amended (5 U.S.C. 171a(c)), is amended to read as follows:

"(c) (1) Within the policy enunciated in section 2, the Secretary of Defense shall take appropriate steps (including the transfer, reassignment, abolition, and consolidation of functions) to provide in the Department of Defense for more effective, efficient, and economical administration and operation and to eliminate duplication. However, except as otherwise provided in this subsection, no function which has been established by law to be performed by the Department of Defense, or any officer or agency thereof, shall be substantially transferred, reassigned, abolished, or consolidated until the expiration of the first period of thirty calendar days of continuous session of the Congress following the date on which the Secretary of Defense reports the pertinent details of the action to be taken to the Armed Services Committees of the Senate and of the House of Representatives. If during such period a resolution is reported by either of the said committees stating that the proposed action with respect to the transfer, reassignment, abolition, or consolidation of any function should be rejected by the resolving House because (1) it contemplates the transfer, reassignment, abolition, or consolidation of a major combatant function now or hereafter assigned to the military services by section 3062(b), 5012, 5013, or 8062(c) of title 10 of the United States Code, and (2) if carried out it would in the judgment of the said resolving House tend to impair the defense of the United States, such transfer, reassignment, abolition, or consolidation shall take effect after the expiration of the first period of forty calendar days of continuous session of the Congress following the date on which resolution is reported; but only if, between the date of such reporting in either House and the expiration of such forty-day period such resolution has not been passed by such House.

APPENDIX 13

NOVEMBER 14, 1958.

Mr. W. J. McNEIL,
Assistant Secretary of Defense (Comptroller),
The Pentagon, Washington, D.C.

DEAR MR. McNEIL: In accordance with your instructions, we have completed a survey of the contract audit functions of the Army, Navy, and Air Force. Three teams, each consisting of two consultants, covered the east coast area, central area, and west coast area. Various offices of the audit agencies, procurement branches, and contractors were visited. Each of the three teams worked

independently and the comments, conclusions, and recommendations of each are set forth in separate reports.

Our principal recommendations, with which we are all in agreement, are summarized below:

(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.

(2) If, because of reasons not apparent as a result of our survey, one contract audit agency cannot or should not be established, the coordination of the contract audit activities of the three existing departmental audit agencies should be strengthened and improved. By way of example, improved coordination would be achieved through (a) a greater exchange of information resulting from experience, ideas, and research, (b) an increase in the cross-assignment of work, such as by geographic areas, and (c) a combined training program.

(3) Contract auditing and internal auditing of procurement offices should be segregated at the working level. (The need for this segregation exists primarily in Army audit agency at the present time.)

(4) Steps should be taken at all levels to bring about improved cooperation between procurement and audit personnel and better coordination of their activities in order that procurement may be accomplished on the most effective basis. This requires, among other things, (a) the contract auditor be a fully functioning member of the procurement team and (b) both audit and procurement personnel obtain a better appreciation and knowledge of each other's objectives, procedures, and problems.

(5) More effective management controls should be developed and used by the audit agencies. Direct supervision of the work while it is in process should be emphasized and, if applied effectively, would be more productive than the present use of subsequent reviews and large volumes of statistics.

(6) A statement of cost principles applicable to negotiated fixed-price contracts in which cost is a factor should be issued, since such a statement has been needed for many years. We understand that a statement of cost principles applicable to all types of contracts is presently under consideration.

(7) Emphasis should be placed continually on the necessity of giving the contracting officer the information he needs in a form he can use. Audit reports, to a considerable extent, have been overstandardized and frequently have not been responsive to the needs of contracting officers in individual cases. Also, the reports are usually too technical and require price and cost analysts to understand them. On the other hand, procurement personnel should do more in making their requirements known to the audit agencies.

(8) Headquarters offices of the audit agencies should continue to make every effort to obtain personnel qualified to do comprehensive auditing and to train existing personnel in performing such audits. Comprehensive auditing, whenever practicable, represents a significant improvement over a large volume of detailed checking. In the case of resident audit staffs, where comprehensive auditing is frequently used now, we found that audit programs and procedures as well as the objectives are generally in an experimental stage and not fully understood by the audit personnel.

(9) More emphasis should be placed on the development of career programs for military personnel if the use of such personnel is to be continued in the contract audit function. The Air Force apparently has done more to develop a career program for military personnel in accounting and auditing than either of the other two military departments.

Because of the importance of the question of establishing one contract audit agency within the Department of Defense, a few additional comments relating to this subject are included in this letter. This subject was not initially contemplated as a part of our survey, and was not included in the matters suggested by you and your representatives for our consideration. However, in our field contacts with contractors, procurement personnel, as well as auditors, we encountered such widespread opinion in favor of one contract audit agency that we gave further consideration to it.

The audit of contractors' accounting records, the evaluation of industrial cost accounting systems, and other work performed by the audit agencies in connection with procurement are similar in nature, regardless of which of the three military departments originates the procurement. In other words, the contract audit activities of the three audit agencies fundamentally are alike.

Experience has been gained in having one agency audit for all three military departments, particularly in the case of resident audit staffs in contractors' plants. In most cases, this procedure has worked out in a satisfactory manner.

A single contract audit agency would offer definite possibilities for better utilization of manpower, improved recruiting and training, more efficient operation, reduced overhead costs, elimination of different instructions and policies, improved communication, and a more uniform approach in dealing with industry. Internal auditing should remain in the military departments.

Improved cooperation between audit and procurement personnel (referred to previously in this letter) would be as necessary in the case of a new contract audit agency as at present. This relationship must be carefully developed in connection with the establishment of any such new agency.

We wish to express our appreciation of the courtesies and cooperation extended to us by the representatives of your office and by the personnel of the three military departments contacted by us during the course of the survey.

Very truly yours,

East coast area :

KARL R. ZIMMERMANN,
Partner, Haskins & Sells.
ROBERT J. MCMASTER,
Principal, Haskins & Sells.

Central (midcontinent) area :

GEORGE R. CATLETT,
Partner, Arthur Andersen & Co.
AUGUST L. MOLLENKAMP,
Managers, Arthur Andersen & Co.

West coast area :

EMERSON LECLERCQ,
Partner, Price Waterhouse & Co.
S. W. MURRAY,
Manager, Price Waterhouse & Co.

APPENDIX 14

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., January 30, 1959.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
Washington, D.C.

DEAR MR. CAMPBELL: I am in receipt of your report (B-133036) relating to examination of the U.S. Army Signal Supply Center, Yokohama, Japan. This and the other reports which you have furnished to me are of great value and, as you know, relate directly to the so-called McCormack amendment (sec. 3.(6)) (Public Law 85-599).

I note from your letter of transmittal and from the report itself that this one signal supply center has failed to properly discharge its supply control responsibility in regard to determining requirements. As a result of this failure the Government was placed in a position of buying millions of dollars' worth of unneeded stocks.

I also note on page 1 of the report itself :

"We did not make an overall appraisal of the activity or its administration. Our work and the related report devote major attention to the identification of deficient areas and the corrective actions taken by the agency in those areas."

It occurs to me that the findings and conclusions of your excellent report at one supply center indicate a deficiency in the supply system itself in the Signal Corps with respect to requirements determination, procurement, overall inspection and review, and inventory control methods and procedures.

Nor can I help but wonder as to the adequacy of the overall Department of Defense supply demand control system. For example, your report indicates a failure at the one signal supply center in the supply management function involving one item—dry batteries. What is the situation with respect to dry batteries within the Department of Defense? Does anyone relate overall inventory with

requirements before procurements are made? Is there concurrent buying and selling?

I am enclosing for your use a copy of the Federal real and personal property inventory report issued by the House Government Operations Committee. In analyzing the inventories in the supply systems of the Department of Defense it is noted that communications and signal equipment total hundreds of millions of dollars. It is to be noted also from the distribution of the reported stocks that a large percentage falls into categories that are either designated as being excessive or could reasonably be so considered. Also that each of the major services carries similar categories of stocks which undoubtedly include identical items.

The McCormack amendment to which I referred earlier reads as follows:

"(6) 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 paragraph, any supply or service activity common to more than one military department shall not be considered a 'major combatant function' within the meaning of paragraph (1) hereof."

Would it be possible for your agency to extend the scope of its investigation to all facets of supply management of electronic supplies and equipment within the Department of Defense? This would mean a study as to the adequacy of the requirements determination, procurement, inventory control, utilization of all available assets before procurement, distribution of stock and disposal of excess or surplus property.

I should also appreciate recommendations which you may be able to make for improvement of supply management across the board in the Department of Defense as contemplated by the legislation to which I refer.

Sincerely yours,

JOHN W. MCCORMACK, *Majority Leader.*

Washington, February 4, 1959.

Hon. JOHN W. MCCORMACK,
Majority Leader,
House of Representatives.

DEAR MR. MCCORMACK: Receipt is acknowledged of your letter of January 30, 1959, referring to our report on examination of the U.S. Army Signal Supply Center, Yokohama, Japan, and raising certain questions with respect to the supply management function at the Department of Defense level.

This matter will be given immediate attention and we will be pleased to advise you.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 9, 1959.

Hon. JOHN W. MCCORMACK,
Majority Leader,
House of Representatives.

DEAR MR. MCCORMACK: Reference is made to your letter of January 30, 1959, acknowledging receipt of our report on examination of the U.S. Army Signal Supply Center, Yokohama, Japan. We are particularly appreciative of your comment that this and other reports which we have furnished you are of great value.

A substantial portion of our audit efforts in the Department of Defense is directed toward the delineation of significant areas of deficiencies in the supply and logistics system, an examination and analysis of these deficiencies in terms of shortcomings in management controls including basic policies and procedures, and recommending to management, and to the Congress when appropriate, such action as will, in our opinion, correct or improve the logistical inadequacies. During the year ended June 30, 1958, over 200 reports were issued to the Congress and the military departments, the majority of which dealt with various aspects of the supply operations of the military services and involved deficiencies in re-

quirements determination, procurement practices and supply control management. Our reviews have covered signal supply control agencies and depots of the Army, requirements determinations for ground communication-electronic equipment in the Air Force and various supply installations of the Navy. In addition, we have reviewed selected aspects of the supply operations of the military services in Europe, north Africa, and the Far East.

Our previous reviews have disclosed the unreliability of stock records at major supply centers and the consequent lack of sound data on which to base supply decisions; requirement determinations have been improper; inadequate coordination existed for supply matters among the military services; contracting procedures in awarding and administering procurements required improvements; and stocks were being disposed of as surplus when valid requirements existed within the military departments.

The results of our previous reviews can now be applied to a study of all facets of supply management of electronic supplies and equipment within the Department of Defense, as you suggested in your letter of January 30, 1959, including a review of the inadequacy of requirements determination, procurement, inventory control, utilization of all available assets before procurement, distribution of stock and disposal of excess or surplus property. The broad nature of such a study, which must encompass evaluation of basic policies and procedures of the Army, Navy, and Air Force, as well as the Office of the Secretary of Defense, will also include a review of the operations of the major electronic supply agencies of the military services in the United States and abroad. As significant matters are disclosed during the course of our review, management and the Congress will be apprised of our findings.

We anticipate that as a result of this defensewide study we will be in a position to make appropriate recommendations for improvement of supply management applicable to all three military services. In this report we will, of course, consider the objectives of the McCormack amendment to which you referred.

As a matter of collateral interest, we have today advised the chairman, Military Operations Subcommittee, House Committee on Government Operations, that as a result of the deficiencies disclosed by our reviews of military supply operations, this area may be of interest to that subcommittee in determining the adequacy of action undertaken by the military departments to correct the matters brought to their attention.

We would be pleased to discuss the proposed study in more detail with you or your staff if you should desire.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., March 12, 1959.

HON. JOSEPH C. CAMPBELL,
Comptroller General of the United States,
Washington, D.C.

DEAR MR. CAMPBELL: I have read with special interest your letter of March 9, 1959 (B-133036) in response to my letter of January 30, 1959, concerning the need for improvement in the military supply management activities.

I consider that the reports you have issued on the subject to date have laid an excellent groundwork for more comprehensive studies into the systems themselves. I also am of the opinion that untold sums of money can be saved by streamlining the military supply systems and that military effectiveness will result from such action.

You and your staff who have contributed to this work are to be complimented.

I have inserted our exchange of correspondence in the Congressional Record of March 11, 1959, and have sent copies of the Record to all the interested committees in both the House and the Senate.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 17, 1959.

HON. JOHN W. McCORMACK,
Majority Leader,
House of Representatives.

DEAR MR. McCORMACK: Receipt is acknowledged of your letter of March 12, 1959, with further reference to our audits of the military supply management activities.

We wish to thank you for having our exchange of correspondence placed in the Congressional Record and for calling this matter to the specific attention of the interested committees in both the House and the Senate. I am sure that the interest that you have shown and the importance which you have attached to these activities will be of material assistance to us in carrying out our audit responsibilities of the military supply management activities.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

