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**PROGRESS MADE BY THE DEPARTMENT OF
 DEFENSE IN REDUCING THE IMPACT
 OF MILITARY PROCUREMENT
 ON THE ECONOMY**

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**JOINT ECONOMIC CTTE.
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HEARING

BEFORE THE

SUBCOMMITTEE ON DEFENSE PROCUREMENT

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

JUNE 12, 1961

Printed for the use of the Joint Economic Committee



**U.S. GOVERNMENT PRINTING OFFICE
 WASHINGTON : 1961**

73406

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PROGRESS MADE BY THE DEPARTMENT OF DEFENSE IN REDUCING THE IMPACT OF MILITARY PROCUREMENT ON THE ECONOMY

MONDAY, JUNE 12, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON DEFENSE PROCUREMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The joint committee met, pursuant to notice, at 10 a.m., in room 357, Old Senate Office Building, Senator Paul H. Douglas (chairman) presiding.

Present: Senators Douglas (chairman) and Proxmire; Representatives Griffiths and Widnall.

Also present: Ray Ward, professional staff member; and Col. John W. Maxwell, Office of the Quartermaster General.

Senator Douglas. The committee will come to order.

We are very happy to open another hearing on the question of the procurement planning of defense supplies.

The committee has held a number of hearings in the past, and has acted as a gadfly with the armed services. After an interview with the present Secretary of Defense during the winter, I had the privilege of meeting with him, the Assistant Secretary, Mr. Morris, the Comptroller General of the United States, Mr. Campbell, the Director of the Budget, Mr. Bell, and Congressman Hébert, Congressman Curtis, and Congressman McCormack of Massachusetts, and in that interview we stressed a number of points that we felt needed attention and corrective action.

The first point that we stressed was the imperative need for increasing the percentage of Government contracts awarded under competitive bidding, rather than by negotiation with single suppliers.

We pointed out that the intent of Public Law 413, the Armed Services Procurement Act of 1947 was that competitive bidding was to continue to be the rule and not the exception, and that the authority to negotiate was to be granted only on exceptional basis.

We pointed out that President Truman's letter of February 19, 1948, cautioned the agencies against the over use of negotiated contracts. (See appendix, p. 101.)

Nevertheless, the facts were that in fiscal year 1960, according to the statement of the Defense Department itself, 86.2 percent of the value of contracts was negotiated, or \$19.7 billion, as compared to only \$3.2 billion under competitive bidding.

Only 4.5 percent of the number of contracts were formally advertised, and over \$15 billion of contracts were negotiated with only one source, no other source being provided. Some of the results were that 10 companies and their subsidiaries received 36 percent of the

dollar value of all contracts; 20 companies received 49 percent; 100 companies received 73.4 percent. (See appendix, p. 145.)

Incidentally, this came to a dollar value of \$15.4 billion equal to the contracts negotiated with a single source, and the evidence was pretty clear that the percentage of overlapping was very great.

Furthermore, in a speech which I made on the floor of the Senate last June 13, I summarized 52 reports.¹ A great public servant, Mr. Campbell, head of the General Accounting Office, pointed out the excessive overpayments which had occurred under these negotiated contracts.

Since then these reports have continued, but it is only fair to state that they refer to contracts under negotiation prior to January 1961.

We have some 17 of these additional contracts here with us and I am going to submit the abstracts of these reports for the record at an appropriate point, and if it does not cause too much work for the Department of Defense we would like to get their replies (See. p. 68.)

Incidentally, we have never heard what the replies were on the original 52 statements of GAO on excessive payments under negotiated contracts.

Let me say that we found the Secretary of Defense and his associates very cooperative on this point. They promised to materially increase the percentage of contracts awarded under competitive bidding, set a target figure which, I think it is not improper to say, should be increased by at least 6 percent from somewhere around 13 to 14 percent to 20 percent.

We also dealt with the lack of integration among military supply systems; urged that the McCormack-Curtis amendment be carried out more fully so that there could be greater integration between the services on purchases and storage.²

We urged, also, that the handling of excess and surplus property be closely scrutinized. We cited the report of the Budget Bureau showing that in a very large percentage of cases where, in a given locality, at a given time, certain branches of the armed services had surpluses and other Government agencies and other services had deficits, had shortages, of these same items, in the same geographical locality, at the same time.

Nevertheless, in two-thirds of the cases the surpluses were disposed of in the open market, not with other Government agencies.³

To the advantage of the military, it should be said that I speak of other Government agencies and that this was not confined to the other military agencies; that is true.

We, furthermore, requested or expressed our doubts about the system of stock funding that Defense adopted some years back. We pointed out that in many cases this meant double appropriations by the Congress.

The Congress would appropriate money for goods which would be put into the stock funds and then we would have to appropriate money for the services to take them out of a given stock fund, and we had, therefore, large amounts of funds locked up in excessive appropriations.

¹ Sec. 106, Cong. Rec., 12410.

² P. 72, "Economic Aspects of Military Procurement and Supply," a report of the Subcommittee on Defense Procurement to the Joint Economic Committee, October 1960.

³ P. 54 *ibid.*

I understand that the Department of Defense and the GAO are making studies of stock funds and will come up with a conclusion. (See appendix, p. 155.) I think I am right, however, that perhaps partially as a result of our suggestion that the funds have been brought down by \$400 million, or will be drawn down by \$400 million, in the budget which is being submitted for the coming year.

Then there were various other points that we raised, but which I do not think need elaboration at this time. So we have had continuing conversations on staff levels between the Department of Defense and this committee.⁴

I want to say that I believe the present directors of the Department of Defense are doing their very best in trying to see what defects there are and to remedy them, but I should warn them that they are up against a tough proposition.

Old habits are not easily broken, and the job itself is almost staggering in volume. We appreciate your good will in this matter.

We think we can be helpful, and we are not here in any spirit, and we were not before, of criticizing the individuals. But we believe the services should remove waste and get more value for each defense dollar.

Senator DOUGLAS. I have read your statement, Mr. Morris. I think it is an excellent one. I understand you said it would take about 20 minutes. We will be very glad to have you read it. I may ask questions as you go along.

STATEMENT OF THOMAS MORRIS, ASSISTANT SECRETARY OF DEFENSE, INSTALLATIONS AND LOGISTICS; ACCOMPANIED BY PAUL RILEY, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR SUPPLY MANAGEMENT, AND CAPT. J. M. MALLOY, USN, CHAIRMAN, ARMED SERVICES PROCUREMENT REGULATIONS COMMITTEE

Mr. MORRIS. I appreciate this opportunity to appear before you to review Department of Defense progress and objectives in logistics management. We are familiar with the concern of this committee in this very broad and highly complex area, as is Secretary McNamara.

The previous hearings and reports of this committee have proven especially helpful in identifying problem areas in logistics management. The letter of the committee chairman to the Secretary of Defense dated May 25, 1961, has also been helpful in focusing attention on certain areas of interest which this committee desires to pursue. (See appendix, p. 59.)

I want to point up at the outset that Secretary McNamara has directed a thorough reexamination of Department of Defense logistics policies and procedures with the objective of effecting immediate improvements, wherever possible, and developing constructive solutions to problems that remain unsolved.

Secretary McNamara has attached a great sense of urgency to this review, and I am extremely confident that certain of the basic decisions essential to improvement of logistics management and organization will be forthcoming very shortly. This committee has noted

⁴ P. XI and XII *ibid.*

the requirement for action of this sort from time to time in its reports on this subject.

I would like to confine my remarks here to three principal problem areas which have commanded considerable attention on the part of this committee. For the next few moments, I would like to speak to the problems of procurement management, supply management, and finally, utilization and disposal.

I recognize that the committee's interest extends beyond these areas and we will attempt to respond to any questions in other related areas which the committee cares to pursue.

I. IMPACT OF PROCUREMENT

Total military expenditures in the past 5 years have been averaging $8\frac{1}{2}$ to 9 percent of the gross national product. Within this total, military procurement of food, clothing, and other nondurable goods is relatively small in relation to national totals. However, expenditures of between \$14 billion and \$15 billion per year in the procurement of major hard goods have averaged about 15 percent of the output of national durable goods.

While defense expenditures are remaining high, they are changing significantly in composition as shown in exhibit 1. In fiscal year 1962, aircraft expenditures will be 29 percent lower than they were 4 to 5 years ago. This is occasioned by a shift away from the aircraft program to missiles, and increasing procurement of ships, electronics, and communications equipment.

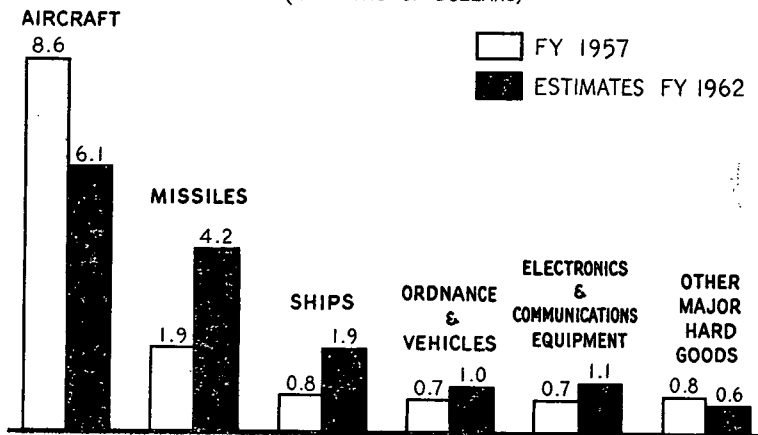
Missile expenditures will be more than double the level of 5 years ago and will account for 28 percent of the total procurement category, in expenditure terms.

The ships program also has more than doubled.

EXHIBIT 1

EXPENDITURES FOR MAJOR PROCUREMENT

(BILLIONS OF DOLLARS)



Expenditures for Army ordnance vehicles and related equipment will reach close to \$1 billion, well above previous levels and actually about 2½ times the levels of fiscal years 1958 and 1959.

Separately procured electronics and communications equipment will be about \$1.1 billion in fiscal year 1962, as compared with \$700 million in fiscal year 1957.

Such changes are presenting new problems to the managers of defense logistics and to defense contractors. They are necessitating a new appraisal of our practices in respect to acquisition of equipment and supplies, and I would like to review certain highlights of our progress and objectives to do a better job in managing how we buy.

(a) *Acquisition of equipment and supplies*

Your committee reports last year stressed the need for greatly improved management of procurement operations by the Department of Defense. The reports indicate that we must find means of advertising many requirements which are now procured through negotiation, take steps to increase competition in negotiations where advertised competitive bidding is not practicable, and improve the quality of negotiations.

I am in full agreement with the committee that we can and must improve the management of the procurement process, both by the Department of Defense and by our prime contractors. I would like to inform the committee of specific steps we are taking to this end:

1. Formal advertising: During the past year we reissued and re-emphasized our policy of giving first preference to the use of formal advertising procedures whenever feasible and practicable, even though legal authority may exist for negotiation. We also developed a new procedure known as two-step formal advertising.

This procedure bridges the gap between formal advertising and negotiation in those instances where precise design is not as important as specific performance characteristics. Under this procedure, bidders are asked to submit designs to meet specified performance criteria with no prices included. These designs are then examined by the Government, and those which will provide an item with desired performance are approved. Bidders with approved designs are then examined by the Government, and those which will provide an item with desired performance are approved.

Bidders with approved designs then submit sealed bids on their own designs and the contract is awarded to the lowest responsible bidder. This procedure, which has been approved by the General Accounting Office, should broaden competition and allow the Government to purchase some technical items by formal advertising which formerly were procured by negotiation.

Through greater emphasis on the use of formal advertising we hope to improve the percent of procurement dollars awarded under this method well above the present 13 to 14 percent. However, there are also opportunities to obtain much greater competition in the 87 percent of our procurements, which are now awarded under practices which are described as negotiated. With your permission, I would like to describe these opportunities in some detail.

2. Opportunities for more competitive procurement: We have recently completed an analysis of procurements totaling \$11.2 billion placed under contract during the first 6 months of fiscal year 1961.

Based on this analysis, it is estimated that about 40 percent of our procurement dollars are placed under some form of competition, while 60 percent are noncompetitive.

It is this noncompetitive area which offers the greatest opportunity now and in the foreseeable future for substantial price reductions. Secretary McNamara has directed that immediate steps be taken to bring all such procurements under much stronger control by injecting elements of competition as fully as possible.

I would like to cite the reasons why this appears to be our greatest area of opportunity.

As shown on the exhibit, the portion of our procurements made under "informal price competition" includes small business set-asides (which actually conform to all of the rules of formal advertising), procurement and subsistence (which is highly competitive but does not lend itself to all of the rules of formal advertising), small purchases under \$2,500 (where the paperwork costs are not justified), much of our oversea procurement, and that part of our equipment procurement where the final selection of the contractor is made on the basis of price.

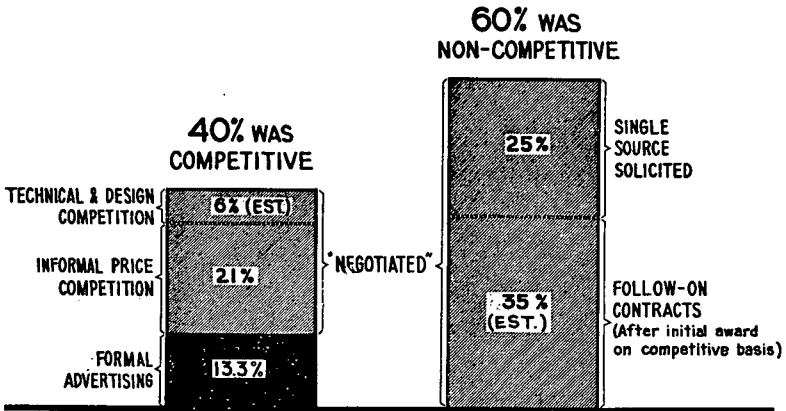
In these purchases we do obtain two or more formal written proposals and award to the bidder who offers the best product or service to meet our needs at the lowest cost. Such procurement is thus fully competitive but in most cases requires the flexibility of being able to discuss with bidders our requirements and their proposals in order to have a satisfactory meeting of minds before the contract is executed. This form of buying is typical of that which successful private enterprise considers to be competitive procurement.

The second type of negotiated procurement which has competitive elements is called technical and design competition, describing generally those instances in which we are procuring research, development,

EXHIBIT 2

COMPETITIVE VERSUS NON-COMPETITIVE PROCUREMENT

BASED ON ANALYSIS OF PROCUREMENT FOR THE FIRST HALF OF 1961
IT IS ESTIMATED THAT OUT OF \$11.2 BILLION IN AWARDS,



OFFICIAL STATISTICS WILL BE BROKEN DOWN BY ABOVE METHODS OF PROCUREMENT BEGINNING IN FY 1962.

test, and engineering services rather than hardware for which definitive specifications exist. The objective here is to choose the contractor who demonstrates the greatest capabilities for such creative performance. Competition is obtained by soliciting known, qualified sources of such services and evaluating the proposals submitted from a technical viewpoint.

The contract is then negotiated, usually on the basis of some form of flexible pricing.

However, in the large area depicted on the chart as "noncompetitive"—the 60-percent bar—there are many indications that we do not move early enough to convert single source buying to some form of competition.

These are the procurements where only single sources are solicited, or where follow-on production contracts (usually awarded in the first instance by technical or design competition) are placed with the development contractor. Our studies reveal that in many cases we resort to this form of noncompetitive procurement practice because complete manufacturing drawings and technical data are not obtained promptly enough after the design is developed and approved.

In a recent case which we have analyzed, the procurement of production articles of a major electronic equipment was continued with the development contractor for 2 years after development was substantially completed, while we were awaiting receipt of production drawings. During this time two production contracts were placed. When drawings were finally received and competition was obtained on the third production order, the price, including that of the development contractor, was dramatically reduced.

We are now in the process of carrying out a searching study of a number of procurements, such as the above, which have been reported as being placed with single sources. This analysis, in addition to evaluating the actions taken, will seek to discover additional methods by which single source procurement can be decreased. In addition, the Secretary of Defense, by memorandum dated April 17, 1961, called upon the military departments to take all appropriate steps to increase competition in negotiated procurements. This memorandum directed that, to the maximum extent, requirements be defined and funded well in advance of the procurement action; that necessary technical data be available at the earliest time possible; and that specifications be prepared in a timely manner upon which bids or proposals can be requested. The Secretary highlighted the fact that the possibility of increased competition depends heavily upon the actions of procurement managers, particularly financial requirements, and technical personnel.

We are also making important refinements in our procurement statistics so that management personnel at all levels, and the Congress, will have available more complete information on the competitive aspects of negotiated procurement. For example, our future statistics will contain a detailed breakdown by each of the negotiation authorities contained in the Armed Services Procurement Act, indicating the presence or absence of competition. We will know whether competition was on a price or technical basis, and we will specifically isolate these sole source procurements which were placed to continue existing programs in cases where the initial contract was placed on a

competitive basis. In this way, we expect to be able to analyze more critically the noncompetitive aspects of our procurement programs.

We have recently changed the Armed Services Procurement Regulation so as to require that the great majority of all defense procurements, whether by formal advertising or negotiation, be publicized throughout the United States in the Department of Commerce "Synopsis of U.S. Government Proposed Procurement, Sales, and Contract Awards." This new program, covered in regulations issued last month, will give much greater publicity to pending procurements and thus will provide increased opportunities for firms interested in defense procurement to participate. We expect this new requirement to generate additional competition, particularly in the area of negotiated procurement.

Senator DOUGLAS. Mr. Morris, would you be willing to have some questions on this general topic before we pass on to the next topic?

Mr. MORRIS. Certainly.

Senator DOUGLAS. It was on the 24th of May, I believe, that the Comptroller General testified before the Subcommittee for Special Investigations of the Committee on Armed Services of the House, and I take it that you are familiar with this testimony?

Mr. MORRIS. I am, sir.

Senator DOUGLAS. He dealt primarily with the purchase of airplane replacement parts, and on page 6 of his testimony he stated that there were over 2,700 different kinds of parts reviewed, 1,670 parts required, at a total price of more than \$66 million, that were not manufactured by the contractor with whom the Government had the open contract, but were completely manufactured by subcontractors, and that the total prices paid by the prime contractors to their suppliers were \$22 million less than the total prices paid by the Government to the prime contractors.

In other words, there was a markup of approximately one-half from \$44 million to \$66 million, and that if the Department of Defense or the Air Force had been able to get to the subcontractors originally, presumably they could have obtained the price which the subcontractors obtained from the prime contractors, and we would have saved \$22 million, or one-third of the final price, or one-half of the price received by the subcontractors.

Now, has the Department any comment to make on this report?

Is this accurate?

Mr. MORRIS. Sir, we are currently investigating each of the items contained in this report. As you know, it is still a draft report. It has not been officially published. I personally spent all of last week with my staff visiting several of the inventory control points where these procurements are made, to determine what kinds of conditions exist that result in this type of practice.

It is a very complex problem, and not one that can be solved by the stroke of the pen.

There are undoubtedly a large number of cases—we estimate at least on the order of a third—where present sole-source procurements of the type contained in this draft report can be made competitive, and we are currently in process of organizing a special staff that will devote its full time for the next year working in this area of sole-source procurement.

Senator DOUGLAS. I should make it clear that these cases occurred prior to January of this year, prior to your taking office, so that

that is no reflection upon you. But, as I read Mr. Campbell's report, it seemed to indicate very strongly that in the vast majority of cases, the drawings and plans were either in the possession of the Air Force or could have been easily obtained, and that, therefore, there was every reason why these should have been submitted for competitive bidding.

Mr. MORRIS. If you would care, sir, we would be glad to comment on some of the reasons why this problem exists.

We visited, for example, the Tinker Air Force Base last Friday, which is one of the activities, having, I believe, 26 of the examples covered in this report.

We find that they have been systematically studying their 120,000 items of aeronautic spare parts.

Senator DOUGLAS. 120,000?

Mr. MORRIS. 120,000, all together. In 9 months, they have been able to cover completely 14,000 of these items. The review that must be made to convert from sole-source to competitive procurement is one that requires engineers and technicians who understand specifications and know whether they are complete enough for reproduction by other sources. There are only some five engineers available to work on this program, at the Tinker Air Force Base, and they have other duties to perform. The procedure and process, therefore, has been somewhat slow. They found, out of their 14,000 items reviewed to date, that 25 percent could be immediately converted; that we did have sufficient technical data on hand to convert to competitive bidding.

Where this has been done, they have been able to obtain a return on the cost of about 40 to 1. For each dollar they spend, the price reduction equals about \$40 saved.

Senator DOUGLAS. What was the reduction?

Mr. MORRIS. Forty to one.

For each dollar they spend in payroll time to analyze these items, they are getting a return of \$40, or 40 to 1. So it is a very worthwhile thing to them. They are quite aggressively pursuing this.

They need a great deal more help in order to do it faster. There are, however, many conditions which cause the items other than the 25 percent not to be eligible for conversion to competitive procurement.

For example, in some cases, while we have the data, we are not legally entitled to use that data for competitive procurement.

It was obtained as proprietary information for our specific use in maintenance, cataloging and other internal activities, but not for procurement purposes.

This was the understanding with the contractor in the first instance.

Senator DOUGLAS. Who furnished the funds to carry out the research and development on these matters?

Mr. MORRIS. In those particular cases, sir, the contractor himself had. These were items he had developed himself for commercial sale, and we were beneficiaries of that development.

Senator DOUGLAS. You did not furnish the funds?

Mr. MORRIS. No, sir, not in the cases where we were not legally entitled to use the data.

Senator DOUGLAS. The Department of Defense has taken the position, has it not, that these developed with funds furnished by the Department of Defense become the property not of the Department of Defense but of the contractor or recipient, is that not true?

Mr. MORRIS. Where we finance the development, we have complete rights to use the technical data, specifications, and drawings.

Senator DOUGLAS. Including patents?

Mr. MORRIS. In the case of patents, we have an unrestricted license, worldwide, to use the patents, where we finance the development of the item.

Senator DOUGLAS. The specific development of the item? What about general research and development?

Mr. MORRIS. If you mean a general, basic research kind of undertaking—

Senator DOUGLAS. Yes.

Mr. MORRIS (continuing). This would depend upon the contractual arrangement at the time.

Senator DOUGLAS. I do not want to get off into a bypath, but I thought that our policy differed from the Atomic Energy Commission where, under the research and development contracts, the patents and discoveries become the property of the Atomic Energy Commission, but I had understood that you had followed in the past a different policy.

Am I misinformed on that?

Mr. MORRIS. There is a difference, sir, as I understand it; I have not inquired in depth into this difference between what the AEC does and ourselves.

Our policy is one of some 20 years' standing where we take an unrestricted right to the patent, worldwide, for our purposes. We do permit the patent holder to utilize the findings for commercial exploitation of the item. In this way, we feel we offer a maximum incentive to our contractors.

Senator DOUGLAS. I see.

Mr. MORRIS. To develop items in our behalf.

Senator DOUGLAS. That is, the Government has the use of it and without charge, but the contractor has the privilege to control its use commercially?

Mr. MORRIS. Correct, sir. The entire subject of technical data and its effect upon competitive procurement is complex. A competitive procurement goal of 25 to 30 percent of the \$1.2 billion we spend annually for the reprourement of aviation spares appears to be attainable. This would be approximately double the percent of procurements now awarded competitively. But before this goal can be reached, several complex problems must be solved.

Present procurement and technical data research procedures must be streamlined to reduce the time required to identify and precisely describe the items for competitive procurement. This process now takes up to 90 days under normal conditions.

Drawings and specifications must be updated and be made readily accessible. Although recent advances have been made in microfilming, reproducing, and filing drawings, our specifications and drawings have not been brought under control.

Much legal research will be required to ascertain the proprietary rights which manufacturers are entitled to. Over half of our drawings contain proprietary rights statements.

We need to separate aviation spares into two categories—safety-of-flight and nonrisk. It is not likely that many of the safety-of-flight spare parts, the malfunction of which would destroy the aircraft, can ever be brought under open, competitive conditions.

Other problems face us. We need to expand the number of qualified sources of supply available to us. Small orders which require high cost and specialized tooling are numerous and tend to preclude bidding by many firms, especially small ones. We need more technically qualified personnel and a system for interchanging engineering data among them.

We have about 864,000 aviation spare parts in our supply system. Each year we buy about 364,000 of these to replenish our stocks. To support the procurement of these spare parts we have over 13 million drawings in our files and 4 to 5 million new drawings and specifications are coming into our files each year. To streamline and effectively manage such a vast system is obviously a gigantic task.

During the past few weeks, we have been impressed with the progress of the military services in finding solutions to many of the problems I have discussed and reported in the GAO studies. The Aviation Supply Office, the Air Force Logistics Command, the Army Transportation Materiel Command, and the DOD Standardization Division have all been wrestling with these matters for many months. Especially encouraging are the strides which have been made in training our procurement personnel, some 4,000 of whom now receive instruction each year in subjects such as contracting and pricing. These courses have been designed by outstanding experts, in and outside of Government. I am satisfied that defense personnel, both military and civilian, who are engaged in this important work, are, on the whole, highly competent and are devoted to our objectives. In respect to our procurement systems and procedures, however, we all readily agree that we have far to go.

We must harness all of our brain power and energies, roll up our sleeves, and go to work in the field locations concerned, to plan and install improved systems, staffing, supervision, and controls.

We are moving ahead rapidly to organize a special full-time staff of the best management and technical specialists that we can find to undertake these studies and to live with the problem until we have installed and perfected improved procedures. We are obtaining the loan of several full-time men at vice president level from industry to assist in studies of some of these problems. We would welcome GAO assigning full-time people to join with us in these efforts.

Senator DOUGLAS. I see.

Now, I do not want to shut my colleagues off. I will ask one question, and then I will suggest that they take over the examination on this point.

Have you had a chance to have someone survey these reports by the Comptroller General on procurement? These are from last May on.

I put the 52 cases up to last May in the record, and these are the 17 from May on. There may be more, but these are the only ones I could find.

Have you had a chance to review those?

Mr. MORRIS. As I understand it, sir, there have been about 100 on procurement and supply in the past 2 years. Our staffs have studied each of these reports and have made written comments on each to the GAO.

Senator DOUGLAS. Now, let me ask this question:

Do you, in general, find the criticisms of the GAO correct or not?

Mr. MORRIS. Sir, I think the best way in which to summarize my findings thus far in respect to the GAO reports are that they, almost without exception, call to our attention problem areas that need some corrective action, and that in a high percent of the cases there is evidence I have found that we have taken corrective action, usually through the issuance of revisions to the Armed Services Procurement Regulations or amendments to Department of Defense policies and instructions.

We welcome the GAO activity as one that does help bring to light matters that otherwise might go unnoticed or not be given proper emphasis.

Senator DOUGLAS. I want to congratulate you for that very constructive attitude. It has not always been evidenced in past years.

Mr. MORRIS. As you know, sir, Mr. McNamara has met twice with Comptroller General Campbell and urged him to extend his audit service to make it even more useful to the top management of the Department of Defense.

We feel that there are cases where working more closely together we could get more timely action on some of these problems, as, for example, the report that you referred to earlier does cover actions that took place in 1959, and the report is just now reaching us for attention.

If a year ago it had been possible, while the findings were still emerging, to have earlier knowledge of them and to go to work on the causes of these problems, we might be 12 months ahead.

Senator DOUGLAS. At the present time, as I understand it, the individual armed services approve departures from full competitive bidding?

Mr. MORRIS. That is correct, sir.

Senator DOUGLAS. Under revised statute 3709, this is given to the Comptroller General.

Would you be willing to have this control put in the hands of the Comptroller General?

Mr. MORRIS. I am not sure, sir, that I understand the question that you have asked.

Senator DOUGLAS. As I understand the law—and I will ask the staff to correct me if I am wrong—the revised statute 3709 and the Budget and Accounting Act provide that the Comptroller General has the final decision as to whether exceptions shall be made from full competitive bid procedure.

Would the Department of Defense object to having that law carried out?

Mr. MORRIS. Mr. Chairman, I believe that there may be two different questions involved in your specific question. The matters of determination of when the 17 exceptions shall be applied are day-by-day determinations to individual procurements.

Exceptions 11 through 16 actually come to the level of an Assistant Secretary of the Department concerned or higher. The other exceptions require a determination at the procuring activity, such as Tinker Air Force Base.

Now, with our several million procurements per year, with, as you have pointed out, over half of those in this country above \$2,500 being negotiated, it would probably be impractical for any external agency to have sufficient manpower on site to rule on each individual case.

I think, as a practical matter, that, therefore, procedurally, we must do that.

Senator DOUGLAS. Then could the power to grant exceptions be transferred from the individual services to the Office of the Secretary of Defense?

Mr. MORRIS. Again, sir, from the point of view of procedure, timing, and manpower, it would not be a practical thing to consider. We believe that the proper approach and the present approach is to have a number of highly trained, fully competent personnel in these large procuring activities to give qualified attention to each individual case under good audit attention, both from internal audit activities and GAO.

Senator DOUGLAS. To whom do they report?

Mr. MORRIS. At the major procuring activities these people report direct to the commanding officer of the activity. Here in Washington, for example, the Technical Services of the Army report to the Deputy Chief of Staff, Logistics, who is, in turn, responsible to the Assistant Secretary of the Army.

Representative GRIFFITHS. Mr. Morris, I would like to direct your attention to your testimony where you point out:

* * * and negotiation in those instances where precise design is not as important as specific performance characteristics. Under this procedure, bidders are asked to submit designs to meet specified performance criteria for a desired item with no prices included.

Would you tell me specifically how specific is the design and how much does the board of review know about the qualifications of the prospective manufacturers?

Mr. Morris. I have not examined the actual cases yet that have been handled in this procedure. I might ask Captain Malloy if he has had an opportunity to.

Captain MALLOY. Well, the specification range or the range of specifications that would be available to be applied to this situation is very wide.

Generally speaking, where we can describe, say, a black box, and indicate its outer dimensions and the performance that we expect from the unit.

With that information and any other that we have, a bidder can design a black box that will do the job that we are looking for.

The bidder's proposal to meet our requirement is submitted for our technical review and it is gone over in great detail.

Those that pass this review are then eligible for the second stage of the two-step formal advertising.

Representative GRIFFITHS. Who are the reviewers?

Captain MALLOY. The reviewers at this first stage are the technical personnel of the Department. Here in Washington, for example, in the bureaus of the Navy and the technical services of the Army.

Representative GRIFFITHS. How many of them are there?

Captain MALLOY. I really don't know. Thousands in the Department.

Representative GRIFFITHS. Before you set up the reviewers, do you determine where the reviewers came from originally and what has been their past history?

Captain MALLOY. I am unable to say whether that is done or not.

Representative GRIFFITHS. Do you not think it would be advisable?

Captain MALLOY. I think that these technical personnel have to conform to the same type of background scrutiny as the procurement officer or the contracting officer himself, and there are instructions and rules in the Department to cover this type of situation, indicating that none of these people should ever put themselves in a position in which there would be any conflict of interest or any suspicion of conflict of interest.

Representative GRIFFITHS. Are they permitted to visit the plant of the contractor?

Captain MALLOY. Yes, ma'am.

Representative GRIFFITHS. Do they review not only the ability of the contractor to perform the contract, but to finance the contract?

Captain MALLOY. The technical people in this first stage do not provide or do not go through a financial analysis. This aspect of the procurement is looked at later when the actual bids are submitted.

Representative GRIFFITHS. Is the only test of whether or not the reviewers are correct in their judgment, whether or not the contractor finally performs the contract?

Captain MALLOY. Of course, this is the ultimate test of the man's judgment. If he indicates that in his view the contractor can perform, I suppose that would be the ultimate test.

Representative GRIFFITHS. If the contractor performs, it is assumed that the reviewer has done proper reviewing?

Captain MALLOY. I would say that is a good indication.

Representative GRIFFITHS. However, there is no way of determining whether or not a person that was disqualified under this first test could have performed the contract, so you have no test as to whether or not the reviewer——

Captain MALLOY. I think this is correct.

(The following was later received for the record:)

COST REIMBURSEMENT CONTRACTS

A summary of cost-reimbursement contracts of \$10,000 or more by program category in fiscal year 1960 is submitted herewith. Similar data for earlier years are not available.

It will be noted that of the total of \$9 billion in cost-type contracts, 91 percent was in four categories of procurement: Aircraft, missiles, electronics and communications equipment, and services.

The aircraft, missile, electronics, and other end-item categories include research, development, and test work in those programs.

The services category includes research and development not chargeable to any one of the other listed programs, and technical services, such as the operation and maintenance of missile test ranges, warning and communications networks, and medical care for military dependents, which must be procured on a cost-reimbursement basis. Of the \$1 billion in cost-type service contracts, 80 percent has been identified with these types of services.

In addition to research, development, and technical services, cost reimbursement contracts are necessary in the procurement of specialized types of military equipment if the design has not been fully developed, if firm specifications cannot be established, or if there has not been sufficient quantity production of the item to provide an adequate basis for determining a reasonable price at the time of the contract award.

The direct influence of expanding weapons development programs is reflected in the increase in cost-reimbursement contracts not only since Korea but also during the Korean war period. At that time, cost contracts increased from \$3 billion in fiscal year 1951 to about \$6 billion in fiscal years 1952 and 1953. The percentage of cost-type contracts, however, increased only from 13 to 20 percent,

because at the same time that new weapons development was being accelerated, weapons of standardized design were being put into quantity production.

The value of actual deliveries of completed hard-goods items and spare parts in fiscal year 1953, the last year of the war, was more than \$22 billion, including \$7 billion in the aircraft program, \$2.8 billion in ammunition, \$2.3 billion in tanks and other combat vehicles, \$1.4 billion in trucks and other noncombat vehicles, \$1.4 billion in production equipment, and \$2.6 billion in miscellaneous types of hard goods. Production in these orders of magnitude clearly involved a large proportion of standardized products adaptable to fixed-price contracts.

This situation has been completely reversed and the nature of the military weapons acquisition program has drastically changed in the period since Korea. Instead of volume production of standardized aircraft, tanks, trucks, rifles, and ammunition to support forces in combat, the major effort has been to develop and produce modern and completely new weapons that take full advantage of the unprecedented rate of advance in science and technology.

One concrete illustration of this is that the volume of military research and development contracts more than doubled in the 4 years from 1956 to 1960, from \$2.4 billion to \$5.6 billion.

Furthermore, in order to gain time, production work on many major weapons has been started before development work has been completed. To permit incorporation of current technological developments, designs have not been frozen, and extensive product improvement and model changes have been frequent. In these circumstances, it has not been possible to predict costs at the time of award, and it has been necessary to use cost-reimbursement contracts for production as well as development and test models. These circumstances occur most frequently in missile, electronics, and aircraft procurement, which account for most of the cost-reimbursement contracts.

Statistics on contract awards in these categories were available for the first time for fiscal year 1955. As shown in the following table, the increase in procurement in the aircraft, missile, electronics, and services categories has paralleled the increase of \$5.7 billion in cost-reimbursement contracts since 1955. Missile and electronics procurement alone increased more than \$6 billion in this period, while there were small decreases in the aircraft and services categories.

The net expansion in this group of programs, the shift to increasingly complex weapons, and the telescoping of development and production to step up operational readiness dates are the factors that have accounted for the increase in the dollar volume and the percentage of cost-reimbursement contracts.

Net value of military prime contract awards of \$10,000 or more (excluding intragovernmental)

[Dollar amounts in thousands]

	Fiscal year 1955		Fiscal year 1960		Increase or decrease	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
All military procurement.....	\$14,951,971	100.0	\$21,181,486	100.0	+\$6,229,515	0
Aircraft.....	5,320,894	35.6	4,815,706	22.7	-505,188	-12.9
Missile systems.....	802,040	5.4	5,067,205	23.9	+4,265,165	+18.5
Electronics and communications.....	1,182,514	7.9	3,092,050	14.6	+1,909,536	+6.7
Services.....	1,804,410	12.1	1,756,916	8.3	-47,494	-3.8
Subtotal.....	9,109,858	61.0	14,731,907	69.5	+5,622,049	+8.5
Ships.....	630,357	4.2	1,030,365	4.9	+400,008	+7
Ordnance, vehicles, and related equipment.....	1,602,020	10.7	1,097,931	5.2	-504,089	-5.5
All other.....	3,609,736	24.1	4,321,283	20.4	+711,547	-3.7
Cost reimbursement contract.....	13,295,468	24.1	9,021,723	42.6	-\$4,273,745	+18.5

¹ Petroleum procurement and army overseas procurement not available in fiscal year 1955. The 24.1 percent ratio is taken against a net total of \$13,661,308,000. Cost reimbursement type contracts are very small in both of these categories.

Captain MALLOY. We are dealing here with the exercise of judgment which is, I suppose, no more difficult than the judgment that our contracting officers are making daily with respect to the qualification of low bidders.

We try to do a penetrating analysis. These are subject to checks and balances and reviews, and, hopefully, we are making the right decision in a high percentage of the cases.

Representative GRIFFITHS. One of the problems, I think, in the contracting field is that the contracting officer can give the contract to the lowest qualified bidder, and, of course, the lowest qualified bidder does not mean the lowest bidder.

It means someone within the contracting officer's discretion whom he thinks is qualified, and it is left really to discretion, so that you very often are in a position to knock out other bidders.

I think this is very hard for lay people to understand. I think that you set up standards that are impossible for Congressmen, for the public generally, to understand. I think it puts you in a position of looking unfair whether you are unfair or not.

Let me give you an example.

Recently an agency not within your control gave out, I believe, some sort of missile contract. They disqualified in the first go-round the only organization in America that put a satellite in orbit.

They said that management was not competent to do it. Now, this, to me, is impossible to understand, and I think this is impossible for the public to understand. So that I think, if you are going to have this type of procedure, that you have to tie it down to some real standards.

It should not be so ephemeral that it is impossible for reasonable men to determine whether or not the judgment of the reviewers has been correct.

It leaves itself wide open. In fact, the reviewers, in the first instance, are people who bring with them prejudices of their own in placing the contract. I think this is one of your biggest problems.

Now I would like to ask you additionally. Some 2 years ago, I believe, an order went out from one of the services that in determining the price at which a contract would be let, that the contracting officer was to add to the price of the bidders the price of shipping the item to the desired point.

Do you still do that?

Captain MALLOY. Yes, we always take into consideration the cost of transportation to destination. This is an integral part of determining the price.

Representative GRIFFITHS. I think that that is unjust. I think you are going directly opposite the intentions of Congress, because that is putting it within your power to discriminate against an industry in America, a group of taxpayers in America.

I do not think you have the right to ask this question or to add that part to the bid.

Secondly, I would like to ask you:

Do you still, on a bid—that is to be built on a Government facility—determine the amount of taxes that a private industry would pay if it had the bid?

For instance, in Cleveland Ordnance District, or in Detroit, where they have large Government facilities within the cities, if a bid is

made by any bidder using those facilities, do you add a certain amount for the taxes that would be paid—that are paid by private industry?

Captain MALLOY. I would like to answer that question in two stages.

We do follow the Bureau of the Budget direction, which establishes certain criteria, one of which is taxes, under which decisions are made as to whether a particular installation is kept active or is closed.

In that situation taxes and many other things are taken into consideration. Now, when we are making a procurement, we have a general policy that we equalize competitive advantage among bidders, so that we endeavor to equalize a situation in which one bidder would have Government facilities and another bidder would not.

In that case, we would add the cost of use of the Government facilities to the bid of the man who had them, so that he would be competing on a fair basis against the man who is not provided with those facilities.

In that situation, we do not evaluate the taxes. In other words, we figure out what is the value of a certain number of machine tools, of certain facilities, and these then are added to the man's bid, or in other situations a bidder could be charged rental under a rental agreement that he would have with us, and the amount of the rental would necessarily be in his bid price, and, hence, would eliminate the competitive advantage.

Representative GRIFFITHS. May I point out that I certainly think that this should be used very discreetly. In the first place, I have never believed that you had qualified purchasers, but I certainly do not believe you have anybody qualified to determine really what the taxes should be, since the proper amount of taxes is a big fight in every town on every single facility in the town.

In my judgment, this type of a requirement has worked most disastrously against the Midwest, where there are large governmental facilities, and where those Government facilities are in the heart, generally, of the cities. So that I think that the Government has taken this land away from the people, it pays no taxes, and now you come along and say:

"Because it pays no taxes, we won't use it. We are going to put it under an additional handicap when bidding on a Government contract."

Mr. MORRIS. I would like to just stress what Captain Malloy has said. It was true, as I understand it, last year that the provisions of Budget Bureau Bulletin 60-2 were used on occasion in evaluating actual procurements. This is no longer the case.

Representative GRIFFITHS. Good. Thank you very much. Thank you, Mr. Chairman.

(NOTE.—Representative Griffiths later submitted additional written questions to be answered. (See p. 62.))

Senator DOUGLAS. Congressman Widnall?

Representative WIDNALL. Mr. Chairman, this is probably a little bit afield, but is any security check made on your potential bidders before you submit designs and informational material to them?

Captain MALLOY. Yes.

If a potential bidder is being asked to bid on a classified project, he must secure a security clearance before he can receive the blueprints and drawings.

Representative WIDNALL. Then if a contract is awarded to that bidder, how far does the security check go after that? Are all the subcontractors given a security check?

Captain MALLOY. Yes, to the extent that they need access to classified material, it would follow down the entire subcontract chain.

Representative WIDNALL. So that the Government is keeping track of all of the subcontractors as well as the contractors?

Captain MALLOY. Yes, sir.

Representative WIDNALL. That is all. •

Senator DOUGLAS. Senator Proxmire?

Senator PROXMIRE. First, Mr. Morris and colleagues, I would like to commend you on what, I think, is a very constructive attitude toward the importance of getting lower prices for the Government and, of course, lower cost for the taxpayer and more competitive bidding.

I want to stress, because I think we have overlooked it, the assertion in the law, the Armed Services Procurement Act of 1947, which says all purchases and contracts for supplies and services shall be made by advertising as provided in section 3, except that such purchases may be negotiated by the agency without advertising if—and there are 17 specific exemptions.

Then President Truman, on February 19, 1948, wrote a letter to Mr. Hunsaker, NACA and the other four agency heads named in the Act, where, it seems to me, he expressed not only the attitude of the President, but also most Members of the Congress at that time (see appendix, p. 101:)

The act states that basic policies of the Government with respect to procurement by the armed services 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.

And he goes on to point out that exceptions result in large firms getting a much larger proportion, in the first place; and, in the second place, or course, the taxpayer having to pay more.

Now, what is the record?

Do you have available to you a record of the procurements by advertised, by what you specified as partially competitive, and not competitive since 1948?

Is that available?

Mr. MORRIS. Sir, most of the statistics, I think, are available. Would you like us to refer to some of them?

Senator PROXMIRE. If you could give them to me quickly, give me the share that is advertised, procured by advertised bidding since 1948, the percentage, if you have it.

Mr. MORRIS. The figures that we have with us actually go back only to 1951.

Senator PROXMIRE. We will have to settle for that, then.

Mr. MORRIS. And the figures broken out between formal advertising and negotiations are dated from 1954 forward.

In 1954, it was 14.2 percent formally advertised.

Senator PROXMIRE. You say you cannot go back before 1954?

Mr. MORRIS. Not with the data that I have in my possession this morning.

I would be glad to search—

Senator PROXMIRE. Will you provide that for the record?

Mr. MORRIS. I certainly will, sir.

Senator PROXMIRE. Do you think you can provide from 1948, too?

Mr. MORRIS. Yes, sir.

(The information referred to is as follows:)

Net value of formally advertised and negotiated contracts fiscal years 1948-60

[Dollar amounts in millions]

Fiscal year ¹	Total ²	Formerly advertised		Negotiated	
		Amount	Percent of total	Amount	Percent of total
1948 (May 19-June 30) ¹	\$1,456	\$196	13.5	\$1,260	86.5
1949 ¹	5,463	1,628	29.8	3,837	70.2
1950 ¹	5,355	1,461	27.3	3,894	72.7
1951 ¹	30,823	3,720	12.1	27,103	87.9
1952 ¹	41,482	4,479	10.8	37,003	89.2
1953 ¹	27,822	3,089	11.1	24,733	88.9
1954.....	12,859	1,822	14.2	11,037	85.8
1955.....	16,041	2,401	15.0	13,640	85.0
1956.....	19,156	2,902	15.1	16,254	84.9
1957.....	20,996	3,423	16.3	17,573	83.7
1958.....	23,666	3,282	13.9	20,384	86.1
1959.....	24,554	3,256	13.3	21,298	86.7
1960.....	22,908	3,170	13.8	19,738	86.2

¹ Figures for 1948-53 exclude contracts awarded outside the United States. Figures for subsequent years include such contracts.

² Total excluding intragovernmental orders.

Senator PROXMIRE. 1954 was 14 percent advertised bidding?

Mr. MORRIS. Yes, sir.

In 1955, it was 15; 1956, 15.1; 1957, 16.3; 1958, 13.9; 1959, 13.3; and 1960, 13.8.

Senator PROXMIRE. I think you would agree with me that this hardly meets the expectation at least of the President, former President Truman, and certainly to most lay people, Members of the Congress, the press, and so forth; you would hardly say that 13.8 percent by advertised bidding constituted the principal way of procurement for our country.

The exceptions obviously are the overwhelming method of securing procurement at the present time.

There is no question about that.

Mr. MORRIS. Sir, there is no question but what the percentage figure in the judgment of all of us is too low. We think that the major stress between formal advertising and negotiation somewhat obscures the problem and the objective.

We would like to stress the need for more competition, and raising the number and dollars of procurement made under competitive methods.

Formal advertising is one method which has a number of rigidities about it that tend to make it a little too artificial to accomplish some procurements.

We must call total set-asides in the small business area negotiated, whereas, in my humble opinion, they are formally advertised in the straight sense of the word.

Senator PROXMIRE. In the set-asides, there is advertised bidding that goes to the low bidder and the Government does have a pro-

cedure that protects it against excessive cost that would normally result from negotiation?

Mr. MORRIS. Correct, sir.

But here we must call this negotiated procurement.

Senator PROXMIRE. How big is that category?

Mr. MORRIS. That is part, sir, of our exception No. 17 on total set-asides, and exception 1 on unilateral set-asides. The restricted portion of small business in 1960 was 1.9 plus 1.4, including the labor surplus set-asides, or 2.9.

Senator PROXMIRE. 1.9 plus 1.4?

Mr. MORRIS. Yes, sir.

Senator PROXMIRE. That would add up to 3.3.

Mr. MORRIS. You are correct, sir. The correct amounts are; 1.5 and 1.4 which total 2.9. I gave you the wrong figures.

Senator PROXMIRE. 2.9. Is that about standard? Is that about what you have had for the past few years?

Captain MALLOY. It has been running about that, as I recall.

Senator PROXMIRE. Is there any other conspicuous—what I would call conspicuously misclassified procurement?

Mr. MORRIS. I believe there are others, sir, that we might mention. Our foreign procurements, for example, where we do have normally competitive procurement. Foreign countries do not follow the practices of American business frequently, so we cannot engage in all of the routines specified for formally advertised procurement.

These amount to 4.8 percent of our procurement dollars. Our small procurement—

Senator PROXMIRE. This 4 percent are competitive in the usually understood sense that you have more than two firms and that it goes to the low bidder?

Mr. MORRIS. This is my understanding of at least a high percent of such procurements.

Senator PROXMIRE. By a high percent, you would say?

Mr. MORRIS. Well, over three-quarters.

Senator PROXMIRE. Then 4 percent there?

Mr. MORRIS. Small procurements, those under \$2,500, normally involve open market type procurements, where due to the size of the procurement, the procurement officer might simply call by telephone three qualified bidders in the local area and award to the lowest bidder.

He does not go through all of the processes of advertising.

Senator PROXMIRE. I should think that would be overwhelmingly competitive in the normally understood sense.

Mr. MORRIS. We would think so, too, sir.

Senator PROXMIRE. Have you run a check or do you have any indication that this is done this way, that the regulations require it be done this way?

Mr. MORRIS. They do, sir.

Senator PROXMIRE. What does that amount to?

Mr. MORRIS. That is about 3.3 percent, sir.

Senator PROXMIRE. Any others?

Mr. MORRIS. There is another 5.5 percent of our procurements which involve the buying of personal services, public utilities, and specially designed parts and materials where there is only one—

Senator PROXMIRE. Personal services? What is this next category?

Mr. MORRIS. Public utilities.

Senator PROXMIRE. All right.

What is the next?

Mr. MORRIS. And specially designed parts.

Senator PROXMIRE. I would say that that would be outside of either category, would it not, to get a fair consideration of—

Mr. MORRIS. Correct, sir.

Senator PROXMIRE (continuing). Of the proportion, it seems to me, we leave that out of either account.

So then you would calculate how much really on the basis of 95 percent rather than on the basis of 100 percent, added figures you have given me so far, and you would still find that three-quarters of the procurement is in what is not competitive bidding?

Mr. MORRIS. There are others that I could mention, if I might, sir.

Senator PROXMIRE. All right, go ahead.

Mr. MORRIS. The procurement of subsistence items.

Senator PROXMIRE. What is that?

Mr. MORRIS. Perishable subsistence procurement. These are procurements made under highly competitive situations, but they are made on very short notice, where we must buy on short notice carload lots of lettuce and other produce to be delivered.

Normally, as I understand it, bids are received telegraphically at a point in time.

Senator PROXMIRE. How much is that?

Mr. MORRIS. This runs about \$442 million per year, or 2.2 percent.

Senator PROXMIRE. All right.

Mr. MORRIS. Another 4 percent are made under the exception where we desire, for reasons of mobilization planning, to place a procurement with a specific plant in a specific location. This is to maintain industrial base.

Senator PROXMIRE. Mobilization planning?

How would you classify—

Mr. MORRIS. This is exception 16, sir.

Senator PROXMIRE. And in what sense is this partially competitive?

Mr. MORRIS. This is not partially competitive, sir. This is the type of thing, again, as you spoke of in the case of personal services, that you probably should reduce the 100 percent against which we make the judgment of how much formally advertised procurement is conducted.

Senator PROXMIRE. All right.

Mr. MORRIS. Then another very large portion, which I have not been able to personally evaluate in total yet, is the follow-on, the first follow-on production procurement to a major contractor who has developed a missile system for us on an airplane or some major weapon, and after the investment of many millions of dollars in plant and tools, as well as perhaps years of development effort, it is just impractical to go out on an open competitive basis on the first production order. It might even cost us a great deal more to do so.

There are exceptions to this that we are beginning to work on.

Senator PROXMIRE. That is a rationalization of negotiated bidding. It may be perfectly proper and desirable, but, nevertheless, it is strictly negotiated bidding.

Mr. MORRIS. That is correct.

Senator PROXMIRE. I imagine you could rationalize all negotiated bidding in one way or another.

It seems to me the Defense Department is not abiding by the law.

Mr. MORRIS. We do not think we should rationalize, sir.

Senator PROXMIRE. By "rationalize," I mean explain, reason.

Mr. MORRIS. There is an explanation that can be had in each case, but this is the purpose of the analysis we have tried to illustrate.

We think of the 60 percent that is now sole-source—meaning there is no competition of any kind—our major goal should be to assess this area and reduce it to the maximum extent.

Senator PROXMIRE. Now let me—I do not want to take too much time, Mr. Chairman, but I think this will just take a few more minutes.

On page 4, I was interested in the same remarks that Mrs. Griffiths mentioned.

You talk about your two-step system of trying to get competition. That is very encouraging and you are to be commended for doing it. How widely used is this two-step exercise? Is it just an idea that you are beginning to experiment with or is it used on a substantial share of your procurement now?

Captain MALLOY. Senator, this is a technique which was essentially developed in the Air Force about 2 years ago, possibly 3 years ago.

The Air Force has had considerable experience with it. The Air Force, you might say, broke this procedure in and got the bugs out of it. We have now introduced it into the Armed Services Procurement Regulation. This was fairly recently, certainly within the past year.

Senator PROXMIRE. Within the last year?

Captain MALLOY. Yes, sir.

The procedure is, I think, just beginning to catch on and get moving in the Army and Navy. You cannot put a procedure like this in overnight, because of one of the points that Mrs. Griffiths mentioned.

Your technical people have to be acquainted with this procedure. They have to be trained. Systems have to be established, and, hence, this is the kind of a new procedure that breaks in rather slowly.

So, to sum up, we have considerable experience in the Air Force, and we are just beginning to have experience in the Navy and Army.

Senator PROXMIRE. Can you give me a notion or the potentiality of this method? How widely do you expect it to be used?

Captain MALLOY. I could not estimate that, but I might be able to be a little bit helpful by indicating that I believe that the Air Force has used it in the past 2 or 3 years on approximately \$70 million worth of contracts.

Senator PROXMIRE. \$70 million?

Captain MALLOY. Yes, sir.

Senator PROXMIRE. \$70 million?

Captain MALLOY. Seventy.

Senator PROXMIRE. It is a pretty small proportion, is it not, of procurement?

Captain MALLOY. Yes, sir.

Bearing in mind that the great bulk of our dollars are in the major military weapons, this procedure will have no application in a large missile contract.

Senator PROXMIRE. I do not want to belittle this. I just want to get a precise figure.

Captain MALLOY. It should be kept in perspective. It will make a contribution. It will not make a revolutionary contribution. It is not designed for that purpose.

Senator PROXMIRE. Is the industry cooperative?

Captain MALLOY. Yes, sir, it has been so far.

Representative GRIFFITHS. I would like to make it quite clear that I do not personally approve of the procedure. I think the procedure gives you one additional way to disqualify a bidder before you ever start talking about price.

Senator PROXMIRE. Now, a little further down you have under item 2:

Based on this analysis, it is estimated that about 40 percent of our procurement dollars are placed under some form of competition, while 60 percent are noncompetitive.

That 40 percent is what we were just going over?

Mr. MORRIS. We were actually looking at parts of both of these bars. We were talking about informal price competition when we spoke of small procurements, foreign procurements, and R. & D. type procurements.

These are the ones in which there is competition either of a price or technical nature. We have added them thus to compose the 40 percent placed under competitive methods of one type or another.

The 60 percent are noncompetitive quota.

Senator PROXMIRE. Then the other area I wanted to ask about was where you say:

In these purchases we do obtain two or more formal written proposals and award to the bidder who offers the best product or service to meet our needs at the lowest cost.

What proportion of your bids has been identical bids? Do you have many?

Mr. MORRIS. Sir, I do not think that we have any way of knowing.

Senator PROXMIRE. Do you not keep a record of identical bids when they come in? This has become so common with municipalities in my State and it is so shocking to me that this happens, that it would seem to me that it might be a useful practice, at least for a time, to keep a record, since the large procurement agencies procure so much.

Senator DOUGLAS. If the Senator from Wisconsin will permit me, the Executive order of the President requires this from now on.

Captain MALLOY. Yes, Mr. Chairman, it does.

The Executive order of the President requires a report to the Department of Justice in great detail on identical bids, and it requires, in addition to the low identical bids, a report of other identical bids that are received. This Executive order is at the present time being implemented within the Department of Defense, and there will be a great volume of identical bids reported in the future under that Executive order.

Senator PROXMIRE. You say there will be a great volume reported in the future?

Captain MALLOY. Yes, sir.

We have had for many, many years regulations which require our contracting officers to report to the Department of Justice whenever, in their opinion, violations of the antitrust laws are involved in identical bids that are received.

We could supply for the record the information that has been generated over the years along those lines. I believe it has recently been furnished to another committee of the Congress.

But we will be reporting in considerably more volume as a result of the President's recent Executive order.

Senator PROXMIRE. Do you have any method of determining whether the so-called, what might be called, the General Electric-Westinghouse pattern, in other words, the dividing up of the market where firms come in and they seem to rotate in their procurement bids, is there any method that the Defense Department has of coping with this kind of situation or being alert to it, being aware of it?

Captain MALLOY. Senator, this is, of course, one of the most difficult things to detect.

Senator PROXMIRE. I know.

Captain MALLOY. To search out and perceive. We have within the past 3 or 4 months issued special instructions to all contracting officers to be on the alert for just this very type of thing.

I believe that this is——

Senator PROXMIRE. I should think you could run kind of a statistical pattern on it and determine whether or not there was a fairly precise year-after-year division of the market that was suspicious.

Captain MALLOY. This is the type of analysis that we make when we do get suspicious of a pricing pattern which seems to us to be out of line.

We make all kinds of cross-checks and frequently are able to alert the Department of Justice to this type of situation.

Senator PROXMIRE. Thank you, Mr. Chairman.

I do want once again to commend you for moving in the right direction, although, like so many people, I am unhappy about the fact that we seem to be making such minor inroads. You say:

In the large area depicted on the chart as "noncompetitive" there are many indications that we do not move early enough to convert single source buying to some form of competition.

I just wonder, once again, if this is an area that provides a useful, large inroad that you can make on negotiation.

Mr. MORRIS. Sir, we think that it represents the major opportunity area at this time, and we are devoting our major attention to it.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator DOUGLAS. Congressman Widnall?

Representative WIDNALL. Mr. Morris, in the case of airplane engines where they have been manufactured by a specific manufacturer and it comes time to recondition these engines, in the bidding that takes place for that reconditioning, what valuation is placed on the experience, the first experience that the services have had with the engine, maintenance costs and the like, in giving effect to the original manufacturer's bid as against somebody new coming into the field and bidding to recondition the engines?

Captain MALLOY. The original manufacturer of the equipment must bid against all other proposed or prospective contractors, the question being whether any other contractor has the ability to do the overhaul of the engines.

If another manufacturer does have, in our judgment, the ability to do the job, and his price is lower, he gets the contract, and we do not add a factor to the principal manufacturer's bid.

Representative WIDNALL. I have in mind a case which I can document, but I have not got it with me, involving the Curtiss-Wright Corp., where they manufactured the engines originally, and the reconditioning award was made to some new firm, I believe in Florida.

They have a very sour experience on the reconditioning where it did not stand up to specs or performance. There were delays and the services themselves had to help recondition later on and it was at considerable cost to the Government because it did not go back to the company that was familiar with the engine and had actually delivered a very fine engine in the first place, and which had good experience.

It seems to me that statements have been made both by management and labor to me that are correct. It is very costly to the Government in dealing with somebody who was not familiar in the first instance with those engines.

Is the proper evaluation given to a new bidder coming in?

Captain MALLOY. As you describe that situation, it does not appear that the proper evaluation was made. This, of course, illustrates the point that we have been talking about this morning.

If we stayed with the original manufacturer, we would have added to the noncompetitive bar chart that Mr. Morris has been talking about and that everybody has such concern, rightly so, about. We endeavor not to stay with sole sources, but to go to other sources, and let everybody have a crack at it.

In doing that, we must necessarily undertake a certain exposure, and that exposure is represented by low bidders who come and bid, and often are not qualified. In that case we must exercise our judgment and disqualify the low bidder, and we have regulations that require us to make an affirmative finding, before we award a contract, that a bidder is, in fact, responsible, because nobody wants us to be awarding contracts to bidders who are not responsible.

In certain cases, of course, our judgments will be wrong, and we might have been wrong in the case you described.

Representative WIDNALL. Has there been any pattern that you can document to show that an original manufacturer does a better job, experiencewise, in reconditioning, than somebody new who comes in on the job?

Captain MALLOY. I know of no readily available information on that point. I would think, as a generality, that the original manufacturer invariably should do a better job, at least initially, as any new company must acquire experience. However, again depending on the complexity of the transaction, a second contractor often can do as good as the developing contractor.

Representative WIDNALL. I know in the instance that I am speaking of it has quite a labor impact in that particular area where they take it and dump it down some other places and they are taking a chance on it when they come in with a new person, anyway.

Captain MALLOY. This is one of the basic problems that we have in introducing competition into our procurements. This is a good illustration.

Representative WIDNALL. It requires more than just a dollar-and-cents evaluation when that bid comes in. I know the spot you are

put on but other Congressmen will say you have got to look at the dollar mark completely, but experience certainly counts and maintenance costs, as shown on the original article, will certainly determine for the services whether or not it is a quality product and whether or not they are entitled to additional work.

That is all.

Senator DOUGLAS. I have only one more question, and then we will pass to the next subject.

You stated, Mr. Morris, that prior to the recent Executive order of the President on identical bids, that the practice of the Department of Defense was for the officials in the various services to report to the Department of Justice those cases where they suspected collusive bidding.

Do you have any record as to the number of cases since the Department of Defense passed this information on to the Department of Justice?

Mr. MORRIS. Yes, we have, sir.

Senator DOUGLAS. I would like to have you share that information with us.

Mr. MORRIS. We will be glad to submit it for the record, sir. I do not have the information with me.

(The following was later received for the record:)

The military departments have not generally maintained central records of the number of cases referred to the Department of Justice involving suspected violations of antitrust laws, including collusive bidding. Consequently, the following statistics have been collected from available sources, including reports rendered by the Department of Justice. While the figures may not be precise, they are believed to be reasonably accurate.

Since 1953, at which time our current procedures were instituted by the military departments, the number of subject cases referred to the Department of Justice up to April 3, 1961, are:

Army.....	166
Navy.....	48
Air Force.....	50
Total, DOD.....	264

Senator DOUGLAS. In nonquantitative terms, was there an overpowering number of cases in which the Department of Defense passed this information on to the Department of Justice?

Mr. MORRIS. I am informed that there has not been an overwhelming number.

Senator DOUGLAS. Would you say that there has been a miniscule number of cases?

Mr. MORRIS. I am sorry, sir, I cannot answer this question with precision.

Senator DOUGLAS. Well, a minute number of cases?

Mr. MORRIS. I am sorry, sir, I do not have the figures. I will be glad to supply them.

Senator DOUGLAS. I mean in nonquantitative terms.

Mr. MORRIS. Relative to our 7 million or so procurements per year, I am sure it has been very small.

Senator PROXMIRE. Will the Senator yield?

Senator DOUGLAS. Yes.

Senator PROXMIRE. It seems to me that one of the distinguished gentlemen said that there would be—I have forgotten the term he used—but it sounded like a large quantity, a very large quantity, of

identical bids reported in the future to the Attorney General, so I presume that this is based on what has happened in the past, and I presume there have been quite a few.

Senator DOUGLAS. The question is whether in the past they have gone any further and they have gone into the hands of the Department of Justice.

Captain MALLOY. Just to comment on the Senator's remark, the basis for reporting in the future, of course, is a completely different basis than we have been operating on in the past. We will be reporting situations from now on, of course, that have been well known to Justice, and which Justice has even brought suit in the courts and has been unsuccessful. We have not, in view of that background, been repetitiously reporting to Justice the information they already knew. The number of reports is not too great for that reason, among others.

Senator PROXMIRE. If they come in identically in the past and Justice has taken legal action but has lost in court, if they come in with identical bids in the future, you just have to accept it and that is it?

Captain MALLOY. It depends on what kind of a request we get from the Department of Justice. We tend to work quite closely with them, and if they, as they sometimes do, ask us to submit to them all of the information we are requiring on a particular item, we would undertake a special project for this purpose.

But as to others that have been identical, which to them or to us do not seem to indicate a violation of the antitrust laws, these would not be reported under our old system, but in the future they would be reported.

Senator PROXMIRE. If the Senator will yield just for one question; I am so curious about this.

How can you have an identical bid for a substantial procurement without having prima facie evidence of collusion?

Captain MALLOY. Well, I think that the Department of Justice over the years has been unable to prove in the courts the prima facie nature of the case against, I believe, the cement industry, where it is a practice, and, to some extent, in the steel industry as well. Industry, as I recall, justifies these actions on the basis of follow-the-leader pricing or other types of pricing which have been determined by the courts to be not a violation of the antitrust laws.

Senator PROXMIRE. Thank you, sir.

Senator DOUGLAS. If I may jog the memory of the Assistant Secretary, I asked the Attorney General to submit to us every fifth complaint, every fifth instance of identical bidding which had been reported to them during the last 5 years—I think this is a fairly good sample.

We received 95 of these cases and although I have not made a statistical study, I almost never saw the name of the Department of Defense as being the referring agency.

The agency which referred the most cases, I would say, was the Department of the Interior.

So we have a great deal of interest, Mr. Morris, in your analysis as to what has happened in the past, how many of these cases have been referred to the Department of Justice, and we hope for an increase in the future.

If there are no further questions on the matter of procurement, let us pass on to the rest of your testimony.

Mr. MORRIS. Sir, I did have a few more comments in the procurement area. Starting with (b):

(b) *Improving the management of procurement*

I believe that our procurement policies and procedures are basically sound, and that the quality of our personnel is generally high. Consequently, we are concentrating our attention on ways to improve the management of our personnel, policies and procedures.

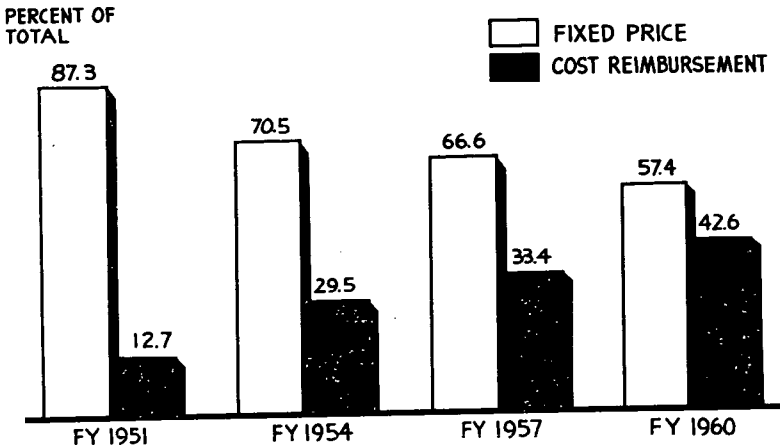
1. First, we are giving increased emphasis to the training of procurement personnel: In the past the military departments have had separate training programs. While individually excellent, these programs differ in scope, content, and application. Since the elements of good procurement are common to all the military departments, we have concluded that common, unified training will produce better trained procurement personnel, at less cost. A proposed program to accomplish this will be ready for review by the materiel secretaries by July 1. We have also instituted a system whereby selected General Accounting Office reports relating to individual departments are being distributed to all of the military departments for utilization in training programs. This is giving us a crossflow of information on problems and deficiencies which can prove worthwhile as a preventive measure.

2. Second, we have a major program underway aimed at value improvement in our procurement operations. The objective of value improvement is to get more usable hardware per dollar spent. This can be achieved in two ways. One is by better control over reimbursable costs paid to contractors. The second is by simplifying our specifications to eliminate unnecessary and overly expensive features in military end items and components.

Better control over reimbursable costs: Exhibit 3 depicts the trend in the type of pricing arrangements in defense contracts over a 10-year period. During this interval there has been a steady decline in fixed-price contracts, under which the contractor assumes the major risk in terms of the profits which he can earn and therefore has a maximum incentive to reduce his costs. Conversely, the percent of our contract dollars awarded under cost-reimbursement (principally cost-plus-fixed-fee) arrangements has risen from 13 percent of our total procurements in fiscal year 1951 to over 42 percent in fiscal year 1960. This trend has placed an increasing responsibility on our contract administrators to exercise close surveillance over contractor costs while relieving the contractor of a strong incentive to keep costs under control. The rapid rise in cost reimbursement contracts is a reflection of the missile age and the principle of concurrency under which production is begun before development is completed. It is part of the price that we have elected to pay in order to buy maximum time in putting new weapons into our operational inventory. Our discussions with industry leaders, however, indicate that some of the cost control features of the fixed-price technique can and should be applied to cost-reimbursement contracts, at least to the extent of rewarding good cost performance through greater profit incentives, while penalizing substandard or poor performance through reduction in profits or fees. We now have major studies going on in this area and are hopeful of developing a practical

EXHIBIT 3

TREND IN PROCUREMENTS BY TYPE OF PRICING ARRANGEMENTS (NET VALUE OF PROCUREMENT ACTIONS)



and acceptable system of rewards and penalties by profit or fee adjustments.

Senator DOUGLAS. This question of cost-plus-fixed-fee, which frequently controls subcontract price, the Comptroller General has evoked some of his most caustic criticisms as to bad practices in the Department.

Mr. MORRIS. This is correct sir.

Value engineering: A second illustration of opportunities for cost reduction, and one in which industry can and is making a major contribution, is through the elimination of expensive and sometimes questionable characteristics called for in our specifications. The military departments have made considerable progress in value engineering but much more can be accomplished. An interesting case in point is an underwater ordnance device initially bought under Navy developed specifications at \$28 per unit. By calling upon the ingenuity of industry to simplify the design and substitute cheaper materials, the Navy is today buying an acceptable item at \$3.59. This item will be needed by the hundreds of thousands. We are expanding the use of value engineering provisions in contracts, wherever appropriate, under which the contractor shares in part of the savings when he is able to propose an acceptable revision in our specifications for an item or component.

Finally, in the area of improving the management of procurement, we are establishing a system whereby the Office of the Secretary of Defense will make greater utilization of management and audit organizations already available in the military departments. It is intended that the reports of these organizations, along with General Accounting Office reports, congressional hearings and studies, and industrial association comments will be analyzed to discover patterns or trends which need remedial action or rapid adoption throughout the Department of Defense. We believe that effective correlation, analysis, and

followup on the information available will make the Office of the Secretary of Defense more responsive to departmental problems and more valuable in assisting the departments to manage procurement programs in accordance with Department of Defense-wide policies and procedures.

(c) *Utilization of small business*

In his recent testimony before the Select Committee on Small Business of the Senate, Secretary McNamara stated:

* * * this Administration believes that a prosperous and vigorous small business community is essential to our economy * * * we are determined to raise the percentage of defense contract dollars awarded to small firms.

To carry out this policy, a two-part program has been launched during the past 3 months. First, we are giving more attention to awarding contracts to small firms for goods and services other than major weapons. As an overall defense goal, we have established a 10-percent increase in the small business share of our prime contract awards as the target for fiscal year 1962 compared to fiscal year 1960.

Individual quotas of increase have been assigned to each Army technical service, Navy Bureau and Air Force Command, and on down to each procuring activity. Monthly reports will be rendered to my office showing our progress against these quotas. Furthermore, we have requested the service Secretaries to require that personnel responsible for design, engineering, requirements planning, and financial management be more alert to their role in the small business program. This they can do by assuring that contracting officers are allowed sufficient time to seek small business competition and to make small business set-asides, where appropriate. Furthermore, more aggressive efforts to convert sole source procurements to competitive procurements at the earliest possible time, as described above, should open up more opportunities for small business to compete. Also the "breaking out" of components from our large weapon or missile system procurements, whenever this is practical without affecting the cost and reliability of the weapon system, is another practice we are emphasizing.

The second part of our stepped-up small business program relates to the subcontracting programs of our major prime contractors and large first-tier subcontractors. These contractors must, in fact, serve as our agents in assuring that a fair share of the defense procurement dollar goes to small business. We have recently been in touch with many of the officials of our principal contractors by letter, and some in person, requesting their cooperation in improving subcontracting opportunities for small firms. During the next few months officials from my office will accompany military department representatives on survey trips to various military installations and prime contractors to assure that appropriate attention is being given to this effort.

Senator DOUGLAS. Senator Proxmire, this is a particular interest of yours. Would you like to ask any questions?

Senator PROXMIRE. Yes, indeed.

If I might, Mr. Chairman, I would like first to go back to talk about this fixed-fee situation as compared with cost-plus.

It has gone from 13 percent in 1951 to 42 percent in 1960, and the only explanation that I see is that we are entering the missile age.

When we go back to the proportion of the procurement that is missile, it has now stepped up to only 25 percent. This is a fantastic

increase in cost-plus procurement. I am wondering if there is some other explanation.

And, also, if it is not true that even with missiles that some of that is subject to advertised bidding.

Mr. MORRIS. I believe that what has happened here is that the leadtimes of several years is required to bring an Atlas, Minuteman, Polaris into production.

It involves a long cycle of development, and has at the same time brought prominently into play this principle of concurrency, where we begin initial production expenditures before the development is finalized.

In this way, we have bought time. We have cut 2 years out of the Polaris operational attainment date. These two things in combination since the early 1950's, particularly since Korea, I believe, heavily account for the trend that we see.

Senator PROXMIRE. Can you supply for the record the statistics on the cost-plus for missiles and the cost-plus for other major procurements; that is, aircraft?

Mr. MORRIS. Yes.

Senator PROXMIRE. And others so that we can see whether there is a trend in using cost-plus for procurement like aircraft and tanks and various other things you have been procuring?

Mr. MORRIS. Yes, sir.

(The following was later received for the record:)

Use of cost-reimbursement-type contracts, by procurement program, fiscal year 1960

[Dollar amounts in thousands]

Program	Total	Cost reimbursement		Cost reimbursement	
		Amount	Percent of total	Amount	Percent
Total, excluding intragovernmental orders and actions of less than \$10,000 each.....	\$21,181,486	\$9,021,723	42.6	\$9,021,723	100.0
Major hard goods (subtotal).....	15,103,287	7,734,240	51.2	7,734,240	85.7
Aircraft.....	4,815,706	1,493,225	31.0	1,493,225	16.6
Missile systems.....	5,067,205	4,234,173	83.6	4,234,173	46.9
Ships.....	1,030,365	184,072	17.9	184,072	2.0
Tank-automotive.....	483,969	38,304	7.9	38,304	0.4
Weapons.....	124,709	35,233	28.3	35,233	0.4
Ammunition.....	489,243	307,137	62.8	307,137	3.4
Electronics and communications equipment.....	3,092,080	1,442,096	46.6	1,442,096	16.0
Services.....	1,756,916	1,030,677	58.7	1,030,677	11.4
All other (subtotal).....	4,321,283	256,806	5.9	256,806	2.9
Subsistence.....	533,325	1,638	0.3	1,638	(¹)
Clothing, textiles, and equipage.....	182,271	2,988	1.6	2,988	(¹)
Fuels and lubricants.....	1,162,860	5,545	0.5	5,545	0.1
Miscellaneous hard goods.....	996,510	230,756	23.2	230,756	2.6
Construction.....	1,446,317	15,879	1.1	15,879	0.2

¹ Less than 0.05 percent

Senator PROXMIRE. It is your judgment that the whole explanation, then, lies in the missile field, even though missile procurement constitutes only 25 percent?

Captain MALLOY. Senator, I think it goes somewhat beyond missiles because electronics and communications equipment has the same

characteristics in this regard as the missile program. As we move away from the long production runs of aircraft, for example, which used to be the major portion of our program, and the mix becomes more sophisticated in terms of more complex military hardware, longer in the development stage, the problem of time that we are concerned with, as the Secretary's statement indicates, the program of concurrency, have all contributed to this trend. We do not like at all the greater use of cost-reimbursement type contracts. This is the least preferred type of contract from our point of view, and we would like very much to see this trend reversed.

Senator PROXMIRE. You see, it seems to me that what confronts us in Congress, who are interested, as are all Members of Congress, in working for the public interest, it is so frustrating because the Defense Department is up against a constant, steady pressure of the industry people whom they see every day and who, of course, are interested, No. 1, in negotiated contracts, and against competitive bidding, whether small or big business.

If they have had any success in the past, they know that they have a lot easier situation with negotiated than they have with competitive bidding.

In the second place, of course, they prefer a cost-plus situation, at least in many cases they would. There is no risk, as you indicate so well in your statement. And they can do nothing but end up with a profit under these circumstances. At the same time, even though you have this pressure, it seems to me that somehow, some way, the Defense Department must find a will to resist it with the industrial suppliers, and to find methods of reducing that cost-plus and to find far more ambitious and far-reaching methods than you have had so far to require advertised bidding.

Mr. MORRIS. Sir, I would like to comment, as a person coming new to a study—

Senator PROXMIRE. This is without anything personal. I think you gentlemen have an excellent statement. There is nothing critical in this.

Mr. MORRIS. I think it is perhaps inaccurate to lay the problem that we are looking at, at the feet of the procurement people; that is, the contracting officers and the buyers. The whole process involves designers, engineers, the people who plan requirements, the people who finance requirements, all of these people contribute to the problems that we are looking at.

We think we must study the entire process and not just the act of contracting, itself.

We do not find—I have not found—resistance on the part of the contracting officers to convert more procurements to competition and to avoid the cost-plus arrangements. They are frequently in a position where they have no other choice, to meet the objectives and time deadlines that they are faced with.

Captain MALLOY. I might point out, Senator, that many of our contracts which are awarded on the basis of cost reimbursement or cost plus fixed fee do have competitive features. Just because a contract is placed on a cost-plus-fixed-fee basis does not mean that it is necessarily noncompetitive.

Additionally we are required, our contracting officers are required, by the law to make a finding before using a cost-plus-fixed-fee contract that such use is likely to result in the least cost to the Government.

These findings must be made, and are being made, with respect to every penny of these cost-plus-fixed-fee contracts.

Representative GRIFFITHS. Will you yield?

Senator PROXMIRE. I yield.

Representative GRIFFITHS. Is not the real problem the fact that now you are really sailing uncharted seas? There is no way for the contractor or contracting officer to determine what the cost of these brandnew items that have never been made before would cost.

They have no standards evaluation; they have no criteria; they have no experience.

Therefore, if they are going to bid today, they would bid at a far greater price than if you simply permit them to give you the costs, audit the costs, and give them some sort of a fee for it, is that not true?

Captain MALLOY. I believe you are absolutely right, Mrs. Griffiths.

This is the major reason why we must use, even though we do not like it, these types of contracts, because we are afraid that if we do not, the contractor, faced with unknown risks, would necessarily include in his contract price contingencies which we think we can eliminate by the use of either the cost reimbursement type contract or other form of flexible price contract, other than the firm fixed-price contract.

Senator PROXMIRE. I will not disagree with my good friend from Michigan, but it seems to me this is a shocking increase from 13 to 42 percent in cost-plus-fixed-fee. We always have new items and we always are moving into new areas, whether it is new kinds of aircraft, new kinds of tanks, new kinds of weapons, new kinds of ships.

Now, we might have some acceleration in new weapons of various kinds, but still this is a very striking and, it seems to me, discouraging increase.

Now, getting into small business, before you discuss small business directly, you said that now you publicize in the U.S. Department of Commerce synopses of U.S. Government proposed procurement sales and contract awards. (See p. 8.)

This is the proposal of Senator Harv of Michigan, and I think it was a proposal we tried to put into my small business procurement bill, but you gentlemen opposed it, and now you say that this is a great advance and a fine thing, but you will not permit us to write it into the law.

If you think it is good enough to call to the attention of the Joint Economic Committee, why is it not good enough to agree with the Banking Committee, when we wish to make this legally required?

Captain MALLOY. Senator, I believe it to be true that our comments on the provision of your bill in this regard did not disagree with the substance of the provisions of your bill on this point, and we carried forward into our regulation this agreement with the substance of your bill.

Senator PROXMIRE. Let me just interrupt at this point to say this. Here is the difficulty.

I think Congress is somewhat more insulated from the pressures than the Defense officials who decide what exceptions you are going to have.

There is nothing to prevent you gentlemen from expanding the exceptions. We are having a disastrous experience with cost-plus and negotiated bidding. Perhaps we can expect to have this again on publicizing procurement. Small business' chance to know where they can bid will be shortlived if reliance is only on regulations.

If we make it a law, then before you can expand the exceptions, Congress, at least, has a good, hard whack at it, so that we can protect small business and give them the maximum amount of information on what is being procured.

Captain MALLOY. Senator, this, of course, brings up the inevitable conflict between the law and the regulation and the need for flexibility in making changes as we go along. We are not at all sure of the impact of this change in our regulations that we have referred to.

There is the possibility that it will bring upon the Government rather substantial administrative problems without benefits. If these can be isolated, if these can be demonstrated, we would probably make some changes.

Obviously, in view of the interest, the very great interest of the Congress, and of Congressmen and Senators such as yourself, this is the type of action which I am sure Mr. Morris would insure that you and other Members of the Congress would be consulted before we made any substantive change in the Regulation.

Senator PROXMIRE. Now, to get back to the substance of your remarks on small business, you say:

Furthermore, more aggressive efforts to convert sole source procurements to competitive procurements at the earliest possible time, as described above, should open up more opportunities for small business to compete.

This is the general kind of approach you are using. You are trying to assist small business by making the opportunities for procurement more competitive, recognizing that small business will do better, generally, where you have advertised bidding than where you have negotiated bidding.

History has been that small business gets almost 50 percent of advertised bidding and only about 20 percent of negotiated bidding; is that correct?

Mr. MORRIS. I believe that is correct, sir.

(The following was later received for the record:)

Senator Proxmire asked: "History has been that small business gets almost 50 percent of advertised bidding and only about 20 percent of negotiated bidding. Is that correct?" Mr. Morris answered: "I believe that is correct, sir."

While the answer given by Mr. Morris is essentially correct, it is also pertinent to consider the following facts. With respect to procurements that have been determined to be within the capabilities of known small firms, small business has fared better on negotiated types of procurement than on advertised. Thus, in fiscal year 1960, small business received 65 percent of the total negotiated small business potential of \$3.5 billion, as opposed to 48 percent of the total advertised small business potential of \$2.4 billion. Two-thirds of the total dollars small business firms received resulted from negotiated contracts, while only one-third came from advertised contracts.

Senator PROXMIRE. One of the reasons why small business has done less and less and less well with the Defense Department is because there has been less and less advertised bidding and more negotiated bidding; is that right?

Mr. MORRIS. We have had a very level situation.

Senator PROXMIRE. These things are together. Small business just coincides with the taxpayer interest, at least to the extent that the taxpayer interest is served by competitive bidding.

Mr. MORRIS. The two programs correlate very directly, sir, the breaking out of components from large systems, the conversion from sole source to competitive buying contributes directly to the small business program.

Senator PROXMIRE. I am not going to take any time in going over this because we have gone over it very thoroughly in my Subcommittee on Small Business of the Banking Committee, but I do ask you gentlemen to reconsider the possibility of supporting measures in a bill which will give the Small Business Administration the power to promulgate a small business program, promulgate it and have the final word on it, recognizing, of course, that they have no opportunity, they should have no opportunity to deal with specific contracts.

This is your responsibility, but recognizing that they should be able to promulgate a program.

The reason I say that is because, once again, here is an agency which is not subject to the same kind of constant, steady, relentless, and so far successful pressures that the Defense Department is, to permit the big business, negotiated bidding, cost-plus methods to become the effective procurement policies of this country.

If small business can move into this area and the Small Business Administration with its own viewpoint and its own responsibility in the small business community, it seems to me we are going to have a much better opportunity for a small business program to emerge which will permit far more contractors to have an opportunity than have in the past. Would you like to answer that?

Mr. MORRIS. Sir, our feelings are as we expressed them a while back. We believe that at our level, where we are free of the daily restraints and pressures of having to do the buying, that we can work objectively with the Small Business Administration in arriving at the soundest set of regulations and programs to assure a fair share to small business.

This is the way we would prefer to work.

Senator PROXMIRE. I know you would. I had a good talk with Secretary McNamara about it. The difficulty is that you gentlemen have these overwhelming responsibilities, a far more important responsibility for the survival of the Nation, than any small business or even taxpayer responsibility.

You have that responsibility and you have to give that 95 to 98 percent of your attention. That is why I say if we provide a bill with guidelines that can aid our procurement and leave you with your responsibility intact, and at the same time give this responsibility, focus it and center it on small business for setting up a program for small business, then it seems to me we can get a program that will be effective and that will work.

So far we just have not gotten one in the past, although the people who have been in your position have been people of very good will and very good intention.

Thank you, Mr. Chairman.

Senator DOUGLAS. Will you proceed with No. 2?

Mr. MORRIS. II. Supply Systems Integration and Management.

I mentioned in the introduction to my remarks that Secretary McNamara had directed a comprehensive reexamination of Department of Defense logistics policies and procedures. A key portion of this reexamination is devoted to a determination as to what precise form the management of common items within the DOD should take. Plans are now under development which analyze several alternative methods of management which could be applied to this range of supply items. Secretary McNamara has required that these alternate plans be submitted to him by July 1 of this year. Consideration of these plans by Secretary McNamara will then permit him to make appropriate decisions regarding organization for management of common items. His decision will produce the blueprint for both the short-range and the long-range courses of action which are required to cope with this problem.

CONSOLIDATED SUPPLY MANAGEMENT

Senator DOUGLAS. Mr. Morris, I take it that this action of the Secretary responds to the first recommendation that our committee made in its report of October 1960.⁵

Mr. MORRIS. It does, sir.

PROJECT 100 OUTLINED (SEE PRESS RELEASE ANNOUNCING "DEFENSE SUPPLY AGENCY," SEE APPENDIX, P. 156)

Senator DOUGLAS. I want to congratulate you on this. Many of us felt through the years that we were being frustrated in the recommendations that we were making. I congratulate the Secretary and the Department for moving in this direction. Is this the famous Project 100 that we have heard rumors about?

Mr. MORRIS. It is, sir.

Senator DOUGLAS. I suppose the details are coming out in a few weeks. Would it be appropriate if you said something about the alternative organizational plans that you are considering?

Mr. MORRIS. I would be happy to outline the project, sir.

The Secretary felt that we had reached a point in our experience with single managers where we now have four that are fully operational and four more that are coming into operation, that we could assess their performance and certain gaps, weaknesses, and opportunities for future improvement. He therefore asked the General Counsel to work with the Materiel Secretaries—that is, my office and my counterparts in the three Departments—to develop for the consideration of himself and the three departmental Secretaries three plans of approach.

The first plan would be the perpetuation of the assignment to individual departments of single-manager responsibility for specified commodities.

The second plan would be the consolidation of all such agencies into a master agency, reporting, however, in the second plan to the Secretary of one of the three Departments.

The third plan called for a consolidated agency reporting either to the Joint Chiefs of Staff or to a designee of the Secretary of Defense.

So these are the alternatives that are being studied.

⁵ P. XI, "Economic Aspects of Military Procurement and Supply," a report of the Subcommittee on Defense Procurement to the Joint Economic Committee, October 1960.

Senator DOUGLAS. Do you expect to get the report by the 1st of July?

Mr. MORRIS. We are committed to deliver the three plans, evaluated, to him by the 1st of July.

Senator DOUGLAS. And when could this committee, or the general public, know about it?

Mr. MORRIS. Sir, it is hard to predict how much time he will need to analyze and review these findings.

Senator DOUGLAS. By next fall, do you suppose?

Mr. MORRIS. I would think so, sir.

Senator DOUGLAS. Thank you.

Will you continue?

Mr. MORRIS. Beyond this particularly significant action, however, certain actions have been taken, or are now being taken independently, which relate directly to the broad subject of materiel management. These actions relate specifically to certain points made in the subcommittee's report of last October, about which the committee has indicated its desire to pursue at this time.

(a) Results of the single-manager program

The first four single-manager agencies have now been operational since 1956. During their early years these agencies had a difficult struggle to perfect procedures and to gain the confidence of the services. They have survived this difficult period and have now reached a point of demonstrated payoff. During the past 2 calendar years the rate of progress by the Subsistence, Clothing, Medical, and Petroleum Agencies has been very rapid, as illustrated by exhibits 4 and 5. Inventories have been drawn down by a total of over \$500 million, and annual savings in personnel and operating costs are now running at the rate of \$20 million per year.

Senator DOUGLAS. May I pause for a moment here to congratulate the Department on this record? This is something that the two

EXHIBIT 4

ONE TIME SINGLE MANAGER SAVINGS

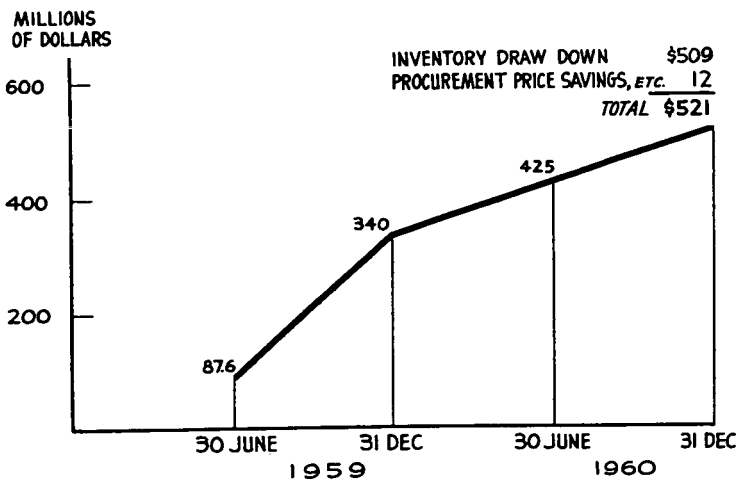
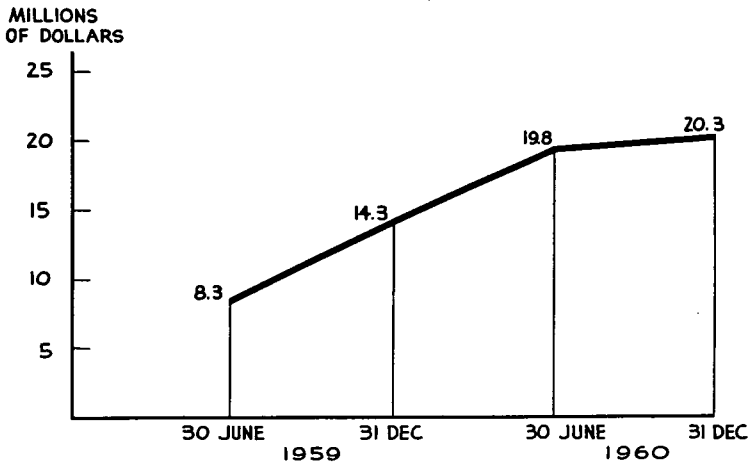


EXHIBIT 5

RATE OF SINGLE MANAGER ANNUAL SAVINGS

Hoover Commissions recommended, that our committee has recommended, and that others have recommended. As a result of the pooling of supplies, you found that you can service the branches of the armed services for \$500 million less in just these four lines alone, and you are now saving \$20 million a year and the end is not yet?

Mr. MORRIS. That is correct, sir.

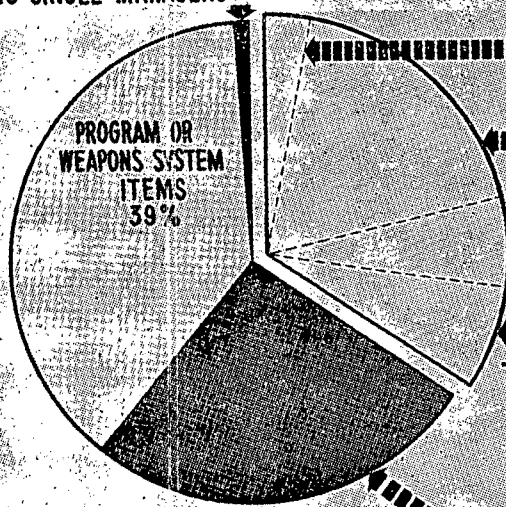
(b) *Expansion and improvement of the single-manager program*

In the field of integrated materiel management, we have made some additional important advances. As you know, in the recent past the DOD established four new single-manager assignments. Progress in achieving operational status within these agencies is encouraging. The Military General Supplies Agency in Richmond will assume support of all military services on July 1 of this year. The Automotive and Construction Supply Agencies will become operational between now and July of 1962, and the large Industrial Supply Agency will reach full operational status in April of 1963. These agencies will bring about 20 percent of our items under integrated management through employment of the single-manager technique. Beyond these four new single-manager assignments, on May 2 of this year the Secretary of Defense directed that the scope of the Military Petroleum Supply Agency be extended to include ownership of wholesale packaged petroleum products in the continental United States. This extension includes the ownership of general mobilization reserve stocks for these items. Detailed planning for this broadening of MPSA responsibilities is now underway. The electronics commodity is also under consideration for application of integrated management. Although not yet clear as to the precise form of integrated management that will be applied, some form of integrated management is a certainty. When this commodity is brought under integrated management, we will have covered 40 to 50 percent of the centrally managed items in the military supply systems. Exhibit 6 shows this trend.

EXPANSION OF SINGLE MANAGER OPERATIONS

44,300 (1%) ORIGINALLY ASSIGNED TO SINGLE MANAGERS

NOW BEING CLASSIFIED



53,000 ITEMS (3%) GENERAL SUPPLIES

614,000 ITEMS (18%) INDUSTRIAL SUPPLIES

207,000 ITEMS (6%) CONSTRUCTION SUPPLIES

253,000 ITEMS (7%) AUTOMOTIVE SUPPLIES

1,177,000 TOTAL ITEMS

UNDER CONSIDERATION

900,000 ITEMS (26%) ELECTRICAL-ELECTRONIC

Senator DOUGLAS. I am told that you have made a study of electronics management.

Mr. MORRIS. That is correct, sir.

Senator DOUGLAS. I have here volumes of that study. I do not say I have read all of this. Is there some dispute going on as to how the body is to be divided?

Mr. MORRIS. No, sir.

This excellent material was drawn together over a period of about 13 months. It contains a full and complete factual description of the way in which the job is now done. That is the reason it is so thick. The consideration of this study, which was delivered to us about the 1st of March, has been part of Project 100, and my words here are meant to indicate that we are finding excellent agreement that we need to act to better integrate the management in this area.

The precise form should await the outcome of Project 100.

Senator DOUGLAS. I had heard that the Air Force felt that their recommendation that they be the single manager of electronics; that the Navy had a similar idea; that the Army, also, had the same idea.

Mr. MORRIS. We are quite fortunate, sir, in having the capability to do this in all three Departments.

Senator DOUGLAS. May I say, when the Secretary reaches the final decision, I hope the various services are treated properly and that they will also receive support from the general public, because this could be disruptive of affairs.

Mr. MORRIS. In order to bring about the integration necessary for war readiness as well as for economy of operation, we must standardize the operations of the several single managers. The prospect of a multiple system has disturbed your committee and has given us serious concern. A great deal of effort has been devoted recently to the matter of standardization of these systems and actions required to make them mutually compatible. Some encouraging progress has been made. For example, we have for the first time a uniform issue priority system in the DOD. This system permits any DOD supplier to discriminate among demands on the basis of the mission of the requisitioner and the urgency of his need without regard to his service affiliation. We have also developed a uniform documentation system for the requisitioning and issue of supplies. Developed primarily with the activities of the various single managers in mind, this uniform system has been constructed so as to permit its use in intraservice transactions as well as interservice transactions. We have, in cooperation with the General Services Administration, provided that they, too, will use our issue priority system and employ the standardized documentation in filling demands on the GSA from military consumers. When it is considered that about three-quarters of a million transactions take place each day within the DOD supply systems, standardization of documentation looms as a major step in the development of unified supply systems. Because of the essential reprogramming of electronic data-processing equipments which is required, operation under this new system is scheduled for July 1, 1962. In addition to these two major tasks which I have just described, we have nearly completed a series of policies and procedures which will standardize single manager operations in the functional areas of cataloging, provisioning, and maintenance.

(c) *Expanding use of GSA supply services*

It is our policy to make maximum use of the supply facilities of GSA. As I have just mentioned, we have taken action cooperatively to provide for GSA employment of the DOD issue priority system and standardized documentation. We are now reviewing each of the 1.2 million items being considered for management by the four new single managers. This review is providing a logical analysis of each item to determine its most appropriate method of management. An important product of this process is the identification of those items for which military management is not required. All other items will be offered to the GSA for their determination as to appropriate methods of supply in consideration of total Government use. Over 45,000 items have already been offered to GSA.

DOD instructions were issued in February of this year which established the GSA as the primary source of supply for those decentralized items carried in its stores depot system and in the Federal supply schedules. These instructions also provide standard procedures for conducting business with the GSA. Thus, we have established the policies as to how and under what circumstances we will do business with the GSA and the classification program will progressively amplify what we will obtain from GSA. The GSA is participating with us in the classification program and, for those items for which GSA will assume support, we indicate GSA as the source of supply in our supply catalogs. During the next 2 years, we expect to offer approximately 150,000 items to the GSA for their consideration.

Senator DOUGLAS. Mr. Morris, I want to congratulate you again on this step.

It is something that our committee has been recommending for some years. It was referred to on page XII of our report last fall, and we said that we felt frustrated in this matter. I think you deserve a great deal of credit for this.⁶

Mr. MORRIS. Thank you, sir.

As the General Services Administration selects classes of items for management, we are jointly screening such classes to eliminate unnecessary varieties and types which may exist between military and civilian agency users. Significant reductions are occurring in this step. For example, in a recent screening of 1,400 furniture items to be managed by the General Services Administration, it was found possible to eliminate 1,012 or 72 percent.

As the committee is aware, the DOD use of GSA has been steadily increasing. Based on activity during the first half of fiscal year 1961, we expect that our volume of business with the GSA will exceed \$600 million in this fiscal year. This will represent an increase of about \$107 million over last year. When the effect of the classification program, which will swell GSA item interest, is considered, the outlook for the volume of support to be provided by the GSA to DOD activities is entirely consistent with this committee's attitude regarding our use of GSA facilities. The orderly and progressive review which has been established, and in which GSA is participating, will serve to establish the permanent character of GSA's role in support of our operations.

⁶ P. XII, "Economic Aspects of Military Procurement and Supply," a report of the Subcommittee on Defense Procurement to the Joint Economic Committee, October 1960.

Senator DOUGLAS. Are there any questions on the subject under II? Mrs. Griffiths?

Representative GRIFFITHS. Thank you, Mr. Chairman.

May I ask you:

Does the single manager keep a record of the last price paid for every item?

Mr. MORRIS. I am certain that he does.

Mr. RILEY. Yes, ma'am.

Representative GRIFFITHS. And is there also a record of that down in the card system on Constitution Avenue?

Mr. RILEY. The price?

No, the price is not fed into the machine at the Center. The stock number description of the item and other item identification are included in the Armed Forces Supply Support Center's computer but the price is not.

Representative GRIFFITHS. How long will the cards that maintain the price be available in the single manager system?

Mr. RILEY. Each of the single managers—and, as a matter of fact, our other inventory control points—have a procedure whereby they continue to update their prices as new procurement contracts come in.

Representative GRIFFITHS. But they do not keep past prices?

Mr. RILEY. They probably keep those records under our record procedure of storing and keeping information up to the past 2 years, but just how far back beyond that they go, I am not sure.

Representative GRIFFITHS. I think it would be of great value if the prices that were paid for particular items and the companies from whom they were purchased would be available indefinitely.

I think historically it would be of value, but I think it would be a value, also, in determining prices. I think it would be of value if such information were passed around to all purchasers.

Do you contemplate so doing?

Captain MALLOY. Mrs. Griffiths, I believe there is the possibility we are talking about two different things here. Mr. Riley, I believe, was commenting upon the accumulation of prices for the purpose of setting standard prices in the supply catalogs to maintain the supply system on a financial inventory basis.

I believe that there is a possibility you are more interested in the type of record we keep of the acquisition unit cost per contract.

Representative GRIFFITHS. Yes.

Captain MALLOY. Now, this type of record is kept in the purchasing offices of the single managers as well as our other purchasing offices, and they keep this information on cards just as long as it has significance in their current buying operations.

I could not say at the moment whether this is 1 year or 10 years. It depends, I suppose, to some extent on the commodity.

Some of these prices get to be very, very voluminous, and, hence, they would not keep them too long.

Representative GRIFFITHS. Thank you.

WEAKNESSES IN SINGLE MANAGER PLANS

Senator PROXMIRE. I would like, with the chairman's permission—to refer to a letter received by the chairman this morning, as I under-

stand it, from the Comptroller General of the United States, and it is an extremely interesting comment on this single-manager operation. I would like to join the chairman in commending you on this single-manager action.

I think it is most heartening that this has been done. It certainly provides a great deal more efficiency and saving. However, the Comptroller General says this, in referring to several single-manager plans that have been put into effect:

Others are scheduled for implementation this year and additional plans are under study. Whether these plans will attain the efficiency and economy anticipated is questionable because the single managers are not vested with the power and authority to properly manage the areas assigned to them.

As we understand it, the single managers have little to do with the determination of requirements for a service or control over inventories in the hands of the using services. Thus, the single manager does not really have the authority or the ways and means to determine what he needs or what is available to satisfy needs.

For these reasons we doubt that the establishment of the single manager of a commodity or service without complete authority to: (1) monitor the supply of new equipment into the supply system; (2) review, coordinate, and consolidate requirements; (3) accomplish all procurements; (4) determine the depth and range of initial supporting spare parts for new items; (5) control all stocks, including mobilization and production reserve stocks; (6) control and manage programs; (7) store and distribute supplies and equipment; and (8) dispose of material excess to the needs of the Department of Defense, will result in significant improvements in supply management.

RESPONSIBILITIES OF SINGLE MANAGERS

Do you have comment on that observation?

Mr. MORRIS. Sir, most of the specific points that are cited there are responsibilities of the single managers. I think perhaps he may be referring to the fact that the single manager does not have final and ultimate authority to decide what to buy and what to stock from a technical point of view, and we believe that this is correct.

It is the user, the technical bureau, service or command, which has the weapon system to operate and to maintain, that must indicate to the person who buys, stores, and issues what the basic requirements are.

SINGLE-MANAGERS' AUTHORITY

However, the single managers do have full authority to question requirements that appear out of line. They do, after having satisfied themselves through raising those questions, complete the whole process, consolidating requirements, buying, storing, and distributing as is outlined in that sequence.

Senator PROXMIRE. The question raised by the Comptroller General is whether their present authority is sufficient to do the job, and he goes on to say in one more sentence:

Our studies indicate that the coordination between the services' procurement and supply management has not been as effective as it should have been. The Departments have been reluctant or less than enthusiastic in participation of cross-servicing programs in the Department of Defense.

I presume this refers to some extent to the single managers with the notion that they are overruled often and their position is not supported.

PROJECT 100 TO DEAL WITH COORDINATION

Mr. MORRIS. It is some of those problems of coordination that this so-called Project 100 is giving particular attention to. We have not had uniform procedures and systems. We have not had uniform exercise of the prerogatives of single managers in such areas of standardization and simplification. These are things that we do want to get on a strong and uniform basis.

Mr. RILEY. I would like to add, Mr. Proxmire, that the problems we have had in cross-servicing before are completely dissipated and become extinct when you have a single manager, because he is the controller of the wholesale inventory.

There is no need to cross-service because he becomes the supplier of those items to all of our customers. In those areas where you have a single manager you have actually consolidated the inventory control missions of three or four military services, you do away with any cross-servicing arrangements.

Senator PROXMIRE. So you feel that the points raised by the Comptroller General are being met to the greatest extent possible, permitting the user of the commodities being procured to have the say that he absolutely must have if he is going to be able to maintain his command?

Mr. MORRIS. I would like to summarize by saying that we agree fully that there are opportunities to do a much more effective job. We believe, however, that the integrity of the user to specify what he needs to maintain and operate these systems is very important, and that we cannot delegate this to what is primarily a service agency.

Senator PROXMIRE. And that the ability of the single manager to object or to make his position clear at a higher level is——

Mr. MORRIS. Must also be protected.

Senator PROXMIRE. I see, and that is working out well. You are always going to have friction here, of course, but you do think you are well on your way to more and more improvement?

Mr. MORRIS. Yes, sir.

Senator PROXMIRE. Thank you.

Senator DOUGLAS. Will you proceed?

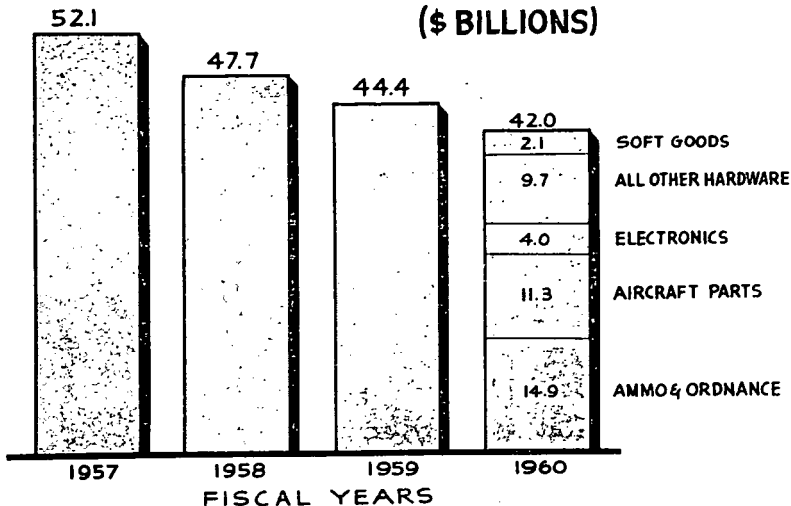
III. UTILIZATION AND DISPOSAL

Mr. MORRIS. Inventory investment in the military supply systems has been sharply reduced during the past few years. As of June 30, 1960, our inventory was valued at \$42 billion, a decrease of \$10 billion, or 19 percent, since June 30, 1957. Exhibit 7 portrays this reduction. Our preliminary figures as of January 1 of this year reflect an additional reduction of approximately \$1 billion, and the effect of continued application of stringent materiel guidance should show a reduction of equivalent proportions at the end of this fiscal year. This substantial reduction of supply system inventories has produced a better utilization of assets and has allowed us to continue our progress in inactivating and disposing of excess warehouse space.

EXHIBIT 7

SUPPLY SYSTEM INVENTORIES

(\$ BILLIONS)

*(a) Better utilization of assets*

Almost \$3.8 billion of the total reduction is a direct result of utilizing excess and long supply stocks in lieu of new procurement.

Senator DOUGLAS. Mr. Morris, again I want to congratulate you. This is something that this committee has been urging for years, to use up material already in storage rather than keeping it in storage and buying new material. I think that is a real achievement.

Mr. MORRIS. Sir, let me say—and I am sure Secretary McNamara would want me to stress—that we are now beginning to derive the payoffs from much of the actual work that was started in the past 4 to 5 years.

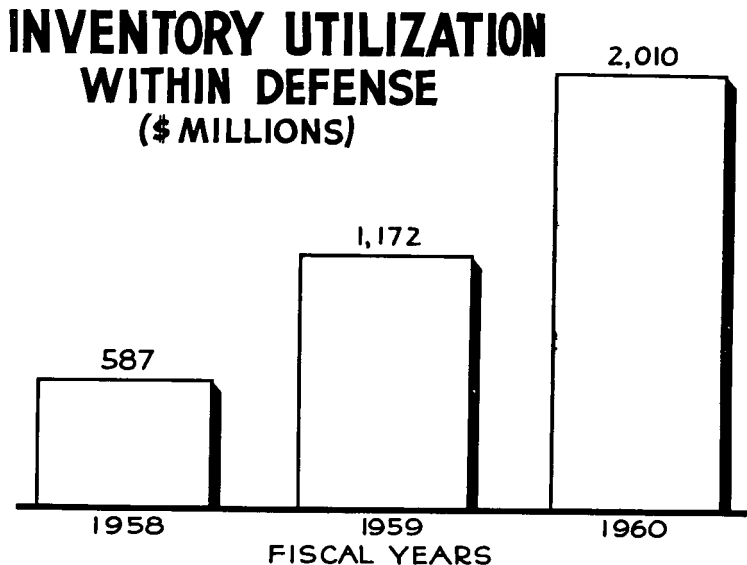
We do not in any way want to appear to be taking full credit for this.

Senator DOUGLAS. I understand.

Mr. MORRIS. The trend in such utilization has tripled in the last 3 years, reaching a total of \$2 billion utilized in fiscal year 1960, as shown in exhibit 8.

Utilization of DOD excess and surplus through transfer to other Government agencies or donation as surplus in support of educational and civil defense programs increased substantially during fiscal year 1960 as well. During this time period, property with an acquisition value of \$240 million was transferred to the civil agencies of Government, and property with an acquisition value of \$347 million was donated to educational and civil defense programs. Both of these levels of performance represent considerable improvement over prior years.

EXHIBIT 8



In connection with our screening of excess personal property, our program is very closely integrated with that of the GSA. The improvement in other Federal agencies' use of DOD excess personal property is in large measure the result of jointly developed screening techniques, under which the GSA screens military and civil activities simultaneously for selected categories and values of excess property. These new screening techniques have considerably shortened the screening time periods for these classifications and, consequently, reduced our holding costs; but, most importantly, have improved utilization rates over prior systems.

(b) Better utilization of storage space

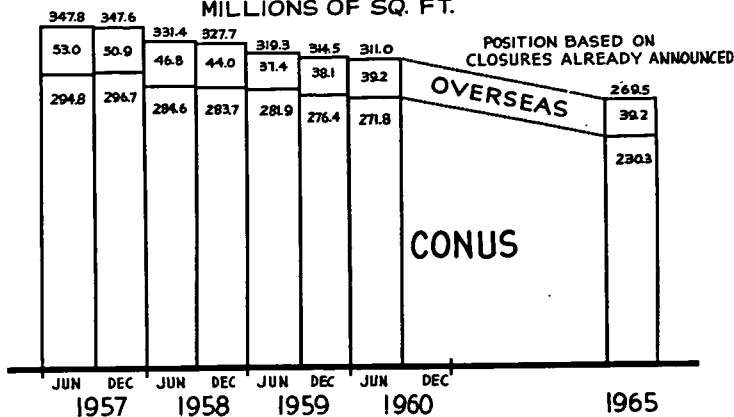
A direct result of reduced inventories has been the release of millions of square feet of covered storage space formerly occupied by these supplies and parts. Our program for phasing out unneeded warehouses is far along, as shown in exhibit 9. In June 1957, we had in active status 348 million square feet of covered storage space. Three years later, these facilities were reduced by 37 million square feet. Phaseout plans are now being implemented to further reduce these facilities by another 41 million square feet by 1965. Some of the inactivated space is being held in standby; other portions are out-leased to private industry or made available for use by other Federal agencies. The remainder is being declared excess and made available for disposal by the General Services Administration, with the objective of turning it to constructive commercial use and placing it on local tax rolls wherever possible.

EXHIBIT 9

SUPPLY FACILITIES

GROSS COVERED STORAGE SPACE (EXCLUDING IGLOO & MAGAZINE)

MILLIONS OF SQ. FT.



(c) *Improvements in utilization procedures*

Notwithstanding the achievements which have been occasioned in the utilization of long supply and the overall reduction in long supply inventories, there is still much that needs to be done to improve this management function.

\$13 BILLION IN LONG SUPPLY

As of June 30, 1960, our inventories still included \$13 billion in long supply. We have determined that the conduct of our utilization program cannot be accomplished exclusively on a precise stock number to stock number match.

Senator DOUGLAS. Mr. Morris, you know the effort to develop technical terms which are Greek to the public?

Mr. MORRIS. Yes, sir.

Senator DOUGLAS. When you say you have \$13 billion in long supply, does this mean you have \$13 billion of supply in excess of known needs?

Mr. RILEY. May I answer that?

No, sir, this is a combination of—if I can use Pentagon jargon here—

Senator DOUGLAS. No, put it in English, or better still, in American.

Mr. RILEY. It is a combination of material that we know is excess.

Senator DOUGLAS. Excess?

Mr. RILEY. Excess, and is in the process of being screened throughout the Department of Defense.

Senator DOUGLAS. Then I would say it is in excess of the known needs.

Mr. RILEY. But this is excess to the holding activity or the owner of that property.

Senator DOUGLAS. Yes.

Mr. RILEY. It may not be excess throughout the Department of Defense.

Senator DOUGLAS. Yes.

Mr. RILEY. Then there is another category which the services are holding because it appears at this point in time to be economic to do so because they may use it later. So it is a combination of those two.

Senator DOUGLAS. Is that included in the \$13 billion?

Mr. RILEY. Yes, sir.

Now, both of these categories of material are over and above what we refer to as our peacetime operating requirement and our mobilization reserve requirements.

ARMED FORCES SUPPLY CENTER STUDIES

Senator DOUGLAS. I may say that I think the Armed Forces Supply Center has been extremely valuable in reducing excess accumulation and in trying to effect transfers from surpluses in one service to deficits in another.

I am told that they have made many of these basic studies for you. I am also told that certain of these surpluses have an accounting department for them, and may I say that on the basis of my experience I regard this unit as extremely efficient, and I hope very much that you do not allow them to be sacrificed to service jealousies.

Mr. MORRIS. We consider them very important to the success of all of this.

Senator DOUGLAS. Good.

Mr. MORRIS. We now have under development a utilization system which will be operated on a centralized basis by the Armed Forces Supply Support Center and, with the assistance of automatic data processing equipment, will include substitutability, interchangeability, and other identification and technical data which will facilitate the exchange of long supply between inventory managers. I am aware that a system of this scope was considered by this committee as practical when it reviewed this problem during the hearings last year. I agree with the committee that such a system is essential to the economical disposition of long supply, and we are attempting to design this system so that exchanges will be made to accommodate total program requirements—rather than shortrange buy-program requirements—which has been the general practice in the past. I am persuaded we will be unable to carry out this system design with the automatic data processing equipment currently available to the AFSSC. Therefore, we are now analyzing this problem to determine the specific equipment that will be required.

Senator Douglas. May I suggest that the facilities of the Massachusetts Institute of Technology has an expert on this equipment.

(d) *Disposal of surplus personal property*

Mr. MORRIS. During fiscal year 1960, our disposal of surplus personal property amounted to \$6.7 billion. Of this total, \$4.6 billion had only scrap value and \$2.1 billion was sold as usable property. An additional \$100 million was abandoned or destroyed. It should be noted that the values that I have expressed represent acquisition prices and have no relationship to age or condition. I should also like to point out that a substantial portion of our disposable surplus

property is property which has been withdrawn from use by our military units, either because of obsolescence or because of wear and tear. Included in these figures are the obsolete ships, military aircraft, and other basic equipment used by our military forces. In measuring these generations of surplus property, care should be taken that these figures are compared with out total personal property investment of \$120 billion, rather than the \$42 billion carried by our military supply systems. Of the surplus property sold during fiscal year 1960, approximately \$950 million, at acquisition cost, came from our supply systems, as such; the remainder came from the in-use equipment of our operating forces. Cash proceeds for all surplus sales, including scrap, amounted to \$206 million during fiscal year 1960. Selling costs, a significant portion of which are associated with demilitarizations, totaled \$78 million for the same period.

NET PROCEEDS FROM SALES

Senator DOUGLAS. Would you say, then, that the net proceeds are about \$128 million?

Mr. MORRIS. Yes, sir.

Senator DOUGLAS. Or \$128 million plus?

Mr. MORRIS. Yes, sir.

Senator DOUGLAS. "Plus" being an undetermined figure?

Mr. MORRIS. Yes, sir.

Senator DOUGLAS. What percentage was this of the amount sold?

Mr. RILEY. \$206 million against the 6.7.

Senator DOUGLAS. Against 2.1?

Mr. RILEY. No, sir, it is the \$206 million which is the cash proceeds.

Senator DOUGLAS. That is right.

Mr. RILEY. Should be compared against the —

Senator DOUGLAS. I am trying to get the percentage which this represented upon the acquisition costs of goods sold. We have the figures here of \$4.6 billion scrap value; \$2.1 billion sold as usable property.

Mr. RILEY. It is about 2 percent for the scrap, Mr. Chairman, and about 5 percent for the usable property.

Senator DOUGLAS. Minus the costs of disposition?

Mr. RILEY. Right.

Senator DOUGLAS. That is not a very high figure, is it?

Mr. RILEY. No, sir, it is not, but, of course, this is subject to all the faults of any averages.

For certain commodities that we sell we get a considerably higher return than this.

Senator DOUGLAS. Let me say—perhaps this is premature—I have been disturbed by finding in so-called Army and Navy stores, which, of course, are private stores, a great many items of clothing and other items which seem to be from the armed services, and I know that not all of the items are from the armed services, but certain items which seem most clearly to be from the armed services selling at a pretty good price, which are new and which have been acquired at these surplus disposal sales.

They are items such as shoes and khaki trousers and windbreakers and various other items which are obviously current needs of the armed services.

Has your attention been called to that?

Mr. RILEY. We have received several pieces of correspondence about this problem, Mr. Chairman. In some cases, when we have tracked this down, the advertisements of the surplus sales store will indicate that this is military equipment. There have been cases where we found that this is not true.

Senator DOUGLAS. That is true. I have run down a number of those cases, and I found a good many of them are not military equipment, but I also find a good many of them are.

Mr. RILEY. And there are cases where these people have bid and acquired our excess or surplus property.

Senator DOUGLAS. Have you ever made an inspection of these surplus disposal centers?

Mr. RILEY. I have not personally, no, sir.

Senator DOUGLAS. Have you had them inspected?

Mr. RILEY. I do not know of any inspection.

Senator DOUGLAS. You have many things to do, I know. Go ahead.

Mr. MORRIS. Of course, the departments do actively inspect these 34 surplus sales points.

Senator DOUGLAS. Yes.

CONSOLIDATION OF SALES OFFICES

Mr. MORRIS. In the surplus sales area, two actions are prominent. We have reduced the number of sales offices from 315 to 34. These 34 activities were established progressively during the last 6 months of this calendar year.

Senator DOUGLAS. You are getting it down to a number which is somewhat manageable?

Mr. MORRIS. Yes, sir.

Additional consolidations may occur as we have time to evaluate our needs. Our operations under the consolidated sales offices have not been in force long enough for us to ascertain the full benefits. However, the buying public has looked upon this move favorably. We expect that we will be able to more closely relate sales to market impact, attract wider markets, improve merchandising, and achieve standardized sales methods which otherwise would not be possible.

In addition to consolidating our sales offices, we have established a consolidated bidders information office at San Antonio, Tex. This office became fully operational on January 1, 1961. Now a prospective purchaser need only write to the San Antonio office, indicating what and where he is interested in buying. The operation is mechanized and produces mailing lists for each of the 34 selling activities which they use when they issue invitations for bid for specific sales. Specially tailored lists are produced, which are organized by commodity and by area.

We shall continue to explore all available merchandising techniques to insure that we are producing the most favorable returns to the Government. In this connection, we are now testing the use of auction sales as a part of our merchandising practices.

Under the monitorship of the Department of the Army and with the collaboration of the Departments of the Navy and Air Force, the Department of Defense authorized five experimental auction sales to be conducted, making use of closed-circuit television, prerecorded

video tape, motion pictures, still slides, representative articles displays, or other devised methods, or combination of any of these techniques. Two of these test sales have been held; the third will be conducted on June 22; and the fourth on August 30. The final test is still in the in the planning stage.

Senator DOUGLAS. Where will these sales be conducted?

Mr. RILEY. There are several places. We have had two sales on the east coast already, Mr. Chairman. There are additional tests scheduled. One was completed last weekend on the west coast.

Mr. MORRIS. The third test, sir, will be at St. Louis, Mo., and Columbus, Ohio, on June 22.

The fourth test will be at San Francisco, Denver, Fort Worth, Atlanta, Columbus and New York, on the 30th of August. The site of the fifth test has not been selected.

Senator DOUGLAS. You have not had auction sales in the past?

Mr. RILEY. Not on this basis, Mr. Chairman. We have had auction sales; that is, the oral type.

Senator DOUGLAS. At each of the 315?

Mr. RILEY. Yes, sir. We have not used that technique extensively, though, in the past.

Senator DOUGLAS. That is, you have not adopted sales even at the local station?

Mr. RILEY. There have been a few, but not extensively.

Senator DOUGLAS. How have you sold the stuff, if you have not used that?

Mr. RILEY. We have allotted the merchandise and have had the prospective buyers come in and look at it and submit proposals.

It might be of interest to this committee to know that although the cost of the television-type auction sale is higher, the returns are considerably higher.

In the ones we have had experience with—and this will vary by type of commodity—on the average we are getting somewhere between 19 and 20 percent return.

Senator DOUGLAS. As compared with the previous figure of what, 2 percent?

Mr. RILEY. Of 5 percent.

Senator DOUGLAS. In other words, by really throwing this open to competitive bidding, you have increased the return from 5 percent to 19 and 20 percent, is that true?

Mr. RILEY. We have also been very careful in the selection of our material which we have used for the sale in the TV auction.

Mr. MORRIS. It is a matter, essentially, sir, of better merchandising, better selling practices, putting more imagination into getting bidders who will pay a proper price for the material.

Mr. RILEY. Years ago, sir, we used to sell on an as-is-where-is basis. It would be piled up, people would come in, look over the property, pick over what they wanted and submit a bid.

Senator DOUGLAS. On individual bids?

Mr. RILEY. Yes, sir.

Senator DOUGLAS. Connected with all this is the question of whether you are selling material that should be sold, that might otherwise be used. For instance, I have your catalog for area 22 at Dayton and there appears to be a lot of coveralls and overalls. If those are unused, I would think this would be in constant demand within the Armed Services.

Lamps, paint, office supplies, other items of apparel, those are common-use items; piano, which, of course, is a military combat item; and then there is an item, I am not quite certain what it means, but I would think there would be a good many items that could be used.

I am not reproaching you for this, but I merely indicate that there is more that can be done.

But go ahead.

IV. CONCLUSION

Mr. MORRIS. We have much left to do. Although progress has been made, it is our purpose to assure progress will continue. At present, we have under development many policies and procedures which must be perfected before integrated management can become fully effective. In connection with our single manager programs, we are developing revisions to policies and procedures which will improve inventory and financial accounting, billing and collection, mobilization and catastrophe planning, and military assistance program planning.

The problems we encounter in our efforts to attain greater integration of logistics become more complex as we move into technical equipment where inventory managers must cope with hundreds of thousands of items and complex technical data. It bears repetition that despite the fact that supply system inventories have been reduced by \$10 billion in the past 3 years, there is still \$13 billion in long supply stocks on hand. More than 75 percent of this long supply is concentrated in the technical items of supply, a portion of which are now under consideration for integrated management. It is in this area that problems of utilization as well as integrated management become acute.

We intend to search critically for new methods, techniques, and approaches to improve all phases of logistics management and to resolve the problems which impede our progress.

Senator DOUGLAS. Thank you very much, Mr. Morris. As I have said repeatedly, I think the Department deserves a great deal of praise for what it is doing.

Mr. MORRIS. Thank you.

Senator DOUGLAS. This committee has been very critical about procedures in the past. Perhaps improvements are occurring which at the time it was my hope, lest it be thought that the committee have some influence on military policy, which I know is generally not conceded, but improvements may have been going on underneath the surface.

But I think the tempo of the improvements and the extent of the improvements has been enormously speeded up under the direction of Secretary McNamara and under your direction. In justice, I have been critical of the Department in the past when I thought they had done a very poor job, and I want to praise you highly for what you are doing now and to say that we give you full support in your work in the future, and we will try to protect you from some of these wolves which might at times, and do at times, put up obstacles.

Now, Mr. Ray Ward has been a moving force in this work for many years and I want to say I think he is one of the great public servants of his generation.

His constant following of these matters has been a very large contributing factor to the improvements that have been made.

Ray is a very modest man and does not take credit for what he does, but I want to state this:

In no faultfinding fashion he has found certain other instances of poor handling of commodities which I would like to have him develop.

Mr. WARD. Thank you very much, Mr. Chairman

Mr. Secretary, this is a matter that we were talking about the other day.

Mr. MORRIS. Yes.

SHORT-SHELF LIFE OR PERISHABLE ITEMS

Mr. WARD. It is something that I think is extremely important, and can best be illustrated by some of these samples which I got at the Maryland Surplus Property Agency. They had received the property on a donation basis under Public Law 152. These are all very common items that are on the Federal Schedule of Supply. That shows that they are being constantly bought by some Federal agency.

For instance, here is a little roll of Triex 36 exposure film, very commonly used. It costs 66 cents, or that is the price on the Federal schedule, but it became outdated in June 1959. That is the expiration date.

Here is another little item that the expiration date is May 1957.

Here is some photographic paper that cost \$4.12 for 100 sheets; and another one, \$8.33 both outdated.

Here is a roll of photostat paper which cost \$12.47. It was outdated May 1958.

Now, the point that I want to make:

Is there not some way, now that the catalog has been developed at a tremendous cost, that you can get an inventory of these items that have short shelf life or that are highly perishable, and get them into use before the expiration date, either within the Defense Department or working with General Services, and before the expiration date make this material available somewhere else in the Government, because when this material goes into a schoolroom, this high-priced photostat paper for example, they just use it for drafting paper or writing paper.

It has completely lost its original utility, and it is really worth about 10 or 15 cents, or something like that, instead of \$12.47.

Mr. MORRIS. Yes, this is a particularly difficult kind of area on short-shelf-life items.

We have had special policies which have permitted more flexible stocking so that we avoid overage conditions developing. I am happy to say on the photographic that the new Military General Supplies Agency will have cognizance of this item and with that centralized management we expect to be able to better control some of these problems in the future.

We have had problems of cutback on requirements which left stocks on the shelves that probably should have been examined much earlier, so as to get into redistribution channels items before they became overage.

This is one that we need to do more work on, I am certain.

Mr. WARD. Thank you very much. I thought these items would illustrate the point. I know there are a great number of perishable

items. In fact, the General Services Administration has prepared a little booklet on limited-shelf-life items, such as rubber goods, paint, tape, and stencils. There is a great list of things, and if the original value could be obtained by the quick matching of requirements with declarations, then, of course, items would not be used for scrap and salvage purposes.

MILITARY COMMISSARIES

Senator DOUGLAS. There are two points here.

First, on commissaries it is my understanding that commissaries do approximately \$400 million worth of business a year; that there is a 3-percent markup over the wholesale cost; but my experience with chain grocery stores, their markup runs from 17 to 19 to 20 percent.

So, there is a hidden Government subsidy of 14 to 16 or 17 percent within the form of donating service personnel where we have found 5,000 enlisted men working in commissaries. This does not include PX's.

And also there is donated space.

Now, the original purpose of commissaries, as laid down by statute, was that they would be located only at places where supplies were not available at reasonable prices, and this is desirable both in out-of-the-way places such as Alaska and also where local businessmen take advantage of the services.

But in the process of time this has been a fringe benefit, and when I proposed that the number of commissaries be reduced, I drew down upon my head the opposition of almost the entire personnel of the Armed Forces, although I believe that commissaries are primarily used by the officers, since the enlisted men are generally fed at mess.

As I drive by casually, I find commissaries around Fort McNair, Fort Myer, Walter Reed, and in other metropolitan centers throughout the United States.

It is maintained that these commissaries are necessary because there are inadequate facilities in the Washington area for purchase of food or that prices are excessive.

I know this is a deep-rooted fringe benefit, since the pay of the military is not adequate. But the Department is opposed to military surplus as well as other forms of surplus. It seems to me that certainly a number of these commissaries have been overbuilt. Now, has this matter come to the attention of the Secretary?

Mr. MORRIS. Mr. Chairman, this responsibility is under the Assistant Secretary for Manpower, and we have with us two representatives of his office, if you would care to have them comment on this.

Senator DOUGLAS. I will be very glad to have them do that. The point is that the Secretary of Defense must have certified that the items are only procured from commissaries if other items are not available at a reasonable distance and price, in a satisfactory quantity for the civilian employees of the Department of Defense.

That is, the Secretary of Defense must certify under Public Law 86-601 that these alternative sources of supply are not available, and that, therefore, the establishment of a commissary is necessary.

And how many such certifications has the Secretary made during the last year?

Colonel MAXWELL. By virtue of the fact that between the Army, Navy, and Air Force we operate 279 commissaries during this fiscal

year, sir, there would have been that number of certifications made by the Secretary.

Senator DOUGLAS. On every one?

Colonel MAXWELL. That is right, sir.

Senator DOUGLAS. The one at Fort McNair?

Colonel MAXWELL. That is correct, sir.

Senator DOUGLAS. And at Fort Myer?

Colonel MAXWELL. That is correct, sir.

Senator DOUGLAS. And at Walter Reed?

Colonel MAXWELL. That is correct, sir.

Senator DOUGLAS. Is it said that groceries are not available in the Washington metropolitan area at a reasonable distance, a reasonable price, and satisfactory quality and quantity?

Colonel MAXWELL. The basis for that certification was that prices were not reasonable. Now, I realize, Mr. Chairman, with the highly competitive grocery situation, that that may be hard to understand why we make such a certification.

Senator DOUGLAS. You mean that they are not reasonable because you only put a 3-percent markup on, and Safeway, for example, has an 18- or 19-percent markup?

Colonel MAXWELL. That is correct, sir.

To explain that briefly, I would like to go back just a bit to the fact that as of—

Senator DOUGLAS. What you are saying is that the prices at Safeway and the other chainstores throughout the area are unreasonable?

Colonel MAXWELL. I would not make that statement, sir.

Senator DOUGLAS. If this is so, I think it should be referred to the Justice Department. If there are unreasonable prices being charged by the grocery industry in the city, this is an object for the Government to look into, and you have evidently made a finding that these prices are unreasonable. If there are monopolistic combinations in the sale of groceries, which I had always assumed was about one of the most competitive industries of which I know, why, this is a matter that should be looked into.

Colonel MAXWELL. May I just explain our basis for the establishment of reasonable prices?

Senator DOUGLAS. Yes, sir.

I think you will have a lot of explaining to do, but I will be glad to listen.

Colonel MAXWELL. As a result of the hearings held by the Philbin subcommittee, House Armed Services Subcommittee, in 1949, the Department of Defense was directed to promulgate certain criteria which would either establish or disestablish commissary stores.

The committee at that time, in addressing itself to the problem particularly one relating to reasonable price, had two major considerations.

One is the fact that a serviceman's pay is the same, regardless of his duty station in the United States.

Second is the fact that the serviceman has a quasi-contract upon entering the service that he will be permitted to buy his food without a disproportionate cost to his family because of a duty station in which he may be established.

Senator DOUGLAS. You mean this is contained in the term of enlistment? It has traditionally been an opportunity and a privileged benefit that we have had?

Colonel Maxwell, I enlisted as a private. I do not remember seeing any such assurance that I would be furnished cheap food.

Colonel MAXWELL. As I said, sir, a quasi-contract.

Senator DOUGLAS. If you say it is a tradition, here is Public Law 86-601, and on page 15, I want to read this provision:

Provided, further, That no appropriation contained in this Act shall be available in connection with the operation of commissary stores within the continental United States unless the Secretary of Defense has certified that items normally procured from commissary stores are not otherwise available at a reasonable distance and a reasonable price in satisfactory quality and quantity to the military and civilian employees of the Department of Defense.

Now, if you say that it has been a tradition that this law is broken, therefore, you must continue breaking it, the real query is whether tradition is really stronger than the statutes.

I had always thought that this was the fundamental law of the land, subject to the Constitution. I have never heard that this has been declared unconstitutional.

Therefore, in the absence of an adverse ruling by the Supreme Court, I must assume that this is the law.

Colonel MAXWELL. That is right, sir.

Senator DOUGLAS. And, yet, you say you have 279 of these?

Colonel MAXWELL. We have 279 stores. May I just complete—

Senator DOUGLAS. Do you have one at the Charleston Navy Yard outside of Boston?

Colonel MAXWELL. Sir, I cannot answer that directly.

Senator DOUGLAS. Do you have one in the Portsmouth Navy Yard?

Do you have any in Baltimore or in Norfolk?

I had assumed that Norfolk and Baltimore had groceries of a competitive nature. Are the prices unreasonable there?

Colonel MAXWELL. As I started to explain, I would like to go ahead just a bit for the determination of reasonable prices. We have established it for purposes of comparison.

Following the need to establish a basis for equitable price and sales, we appealed to the national industry advisory groups to determine the appropriate markup established by the retail supermarkets and chains. That was furnished and established at approximately 20 percent.

Senator DOUGLAS. Yes.

Colonel MAXWELL. That being the criteria on which we determined reasonableness of price.

Senator DOUGLAS. Do you mark yours up 20 percent?

Colonel MAXWELL. We do not, sir.

Senator DOUGLAS. How much do you mark yours up?

Colonel MAXWELL. We sell ours at invoice cost.

Senator DOUGLAS. No markup at all?

Colonel MAXWELL. We had a surcharge of 3 percent.

Senator DOUGLAS. Three percent; that is what I thought.

Colonel MAXWELL. As required by the Appropriations Act.

Senator DOUGLAS. So you sell at 17 percent less than the markup in the private grocery trade?

Colonel MAXWELL. That is correct, sir.

Senator DOUGLAS. And by virtue of that, then you say that the price in the ordinary grocery trade is unreasonable?

Colonel MAXWELL. We determine that prices that exceed the average markup as established by the various chainstores are unreasonable, and our primary concern there, we have noted as a result of our price comparison surveys that retail prices throughout varying regions of the United States will vary as much as 15 percent.

Now, in those areas obviously the civilian wages are adjusted accordingly. Our enlisted man's wages are not. We consider that whenever a man is in an area because of duty station where he pays a disproportionate price which does exceed the average retail market throughout the United States, that those prices are unreasonable.

Now, that, sir, is our basis. For me to sit here and indicate to you that the highly competitive food industry does not provide reasonable prices to the civilians in these areas, that would be incorrect.

Senator DOUGLAS. You say that you only declare a price unreasonable if the markup is more than 20 percent?

Colonel MAXWELL. That is correct, sir.

Senator DOUGLAS. If the markup is more than 20 percent.

What is the markup for the Safeway stores here?

Colonel MAXWELL. The price differential based upon the—

Senator DOUGLAS. I am not trying to get any business for Safeway.

Colonel MAXWELL. Yes, sir.

The price differential between the Cameron Station and the two stores used for comparison purposes which were A. & P. and Grand Union represented approximately 32 percent.

Senator DOUGLAS. 32 percent?

Colonel MAXWELL. Yes, sir.

Now, that is based upon the price comparison of some 80-odd items that are established by the Bureau of Labor Statistics as representing the breadbasket, which is the normal purchase of a family of four living in suburban areas.

Senator DOUGLAS. How many of these 279 commissaries are being continued because of price and how many because of distance?

Colonel MAXWELL. I would like to supply that for the record, sir. I do not have that specific data.

Senator DOUGLAS. I wonder if you would be willing to do that?

Colonel MAXWELL. Yes, sir, I can do that.

Senator DOUGLAS. I wonder if this part of the testimony could be called to the attention of the Secretary.

Mr MORRIS. I will be happy to, sir.

(The following was later received for the record:)

<i>Basis</i>	<i>Number</i>
<i>Bases for continuation of commissaries</i>	
Combination of facilities, adequacy, cost and price.....	17
Convenience and price.....	206
Price only.....	54
Adequacy and convenience of available facility.....	—
Adequacy and price.....	2
Convenience only.....	0
Total.....	279

Senator DOUGLAS. Thank you very much.

Again, let me say that I think you have made a magnificent start and deserve the support, I am convinced, of the American people.

I can assure you that I think you will have the support of this committee, regardless of party, in this matter. I hope you will not think that we are taking up excessive amounts of your time, if, occasionally, we ask you to report back to us on performance, because we know that in such a huge organization frequently energies diminish with time and when difficulties increase.

We asked for common-supply service activities. I am inserting a partial list. You will complete it and advise as to what has been done or is planned with regard to management, and I am going to ask to have inserted in the record at the appropriate points my letter to the Secretary of Defense outlining the scope of the testimony this morning, a letter which I just received as we went into the hearings from the Comptroller General, a similar letter just received from the General Services Administration, and what is due from Commerce, together with certain other material.

Thank you very much.

Mr. MORRIS. Thank you, Mr. Chairman.

PARTIAL LIST OF SUPPLY AND SERVICE ACTIVITIES IN THE DEFENSE AGENCIES

Procurement	Recruiting, induction, and reception
Warehousing	Military police
Distribution	Training
Cataloging	Liaison activities
Surplus disposal	Communications
Financial management	Construction and real estate
Budgeting	Engineering
Photography	Weather
Post management and housekeeping	Military justice
Mapping, aerial	Publications
Mapping, other	Renegotiation
Disbursing	Auditing
Inspection (meat, other)	Personnel management
Accounting	Training
Medical and hospital services	Recordkeeping
Transportation—land, sea, and air	Research and development
Intelligence	Printing
Legal	Statistical reporting, reports control
Public relations	

(NOTE.—Congressman Curtis, a member of the subcommittee, asked that several specific questions be answered (see pp. 81-84).)

(Whereupon, at 1:50 o'clock, the hearing was adjourned.)

APPENDIX

MAY 25, 1961.

HON. ROBERT S. McNAMARA,
Secretary of Defense,
Washington, D.C.

DEAR MR. SECRETARY: During the last Congress the Joint Economic Committee established a Subcommittee on Defense Procurement to consider the economic impact of military supply and related matters on the national economy. The subcommittee held hearings on January 28, 29, and 30, 1960, and issued a report in October 1960. Because of the continuing importance of this subject the subcommittee has been reconstituted and will hold additional hearings and issue suitable reports from time to time.

In addition to a review of the progress made on subjects discussed and actions promised at the January 1960 hearings it is our intention to determine the status of the programs you have initiated and planned with respect to the implementation of the McCormack-Curtis amendment under its broad scope to deal with common supply and service matters.

Specifically, we need (1) a listing of the common supply and service activities coming within the scope of the act; (2) actions taken to date to improve economy, efficiency, and effectiveness with respect to each of them; (3) other actions planned with respect to them (dates of contemplated reports, studies, etc.).¹

You will note from the subcommittee report of October 1960 and from the meeting with you on March 3, 1961, that we are particularly interested in learning of the developments with respect to single manager operations and any programs underway to tie them into an overall plan.

We are interested also in developments respecting (1) improvement in the reduction of negotiated contracts; (2) the management of stock funds; (3) the disposal of excess and surplus property; (4) the cooperative role of GSA; (5) what is underway with respect to the development of uniformity in systems, procedures, forms, etc., for the management of supply and service activities in the zone of interior and the theaters.

It is the plan of the subcommittee, which has been discussed with Secretary Morris and Mr. Riley, to hold its first hearing on June 12, 1961.

In order to facilitate the work of the subcommittee, it will be appreciated if you will designate the person to whom Mr. Ray Ward, staff director, can communicate in order to make necessary arrangements for witnesses, data, etc.

With best wishes.

Faithfully yours,

PAUL H. DOUGLAS.

¹ Since this point was not covered in the prepared statement of Secretary Morris, the following information was supplied for the record:

"On March 8, 1961, Secretary McNamara directed the General Counsel to review the activities of the total Military Establishment and identify those operations which might be organized to serve all military services. This review, known as project 51, is concerned with those activities which have often been considered 'common services.'"

"Four broad categories of these services are now under consideration:

- "1. Personnel and administrative services.
- "2. Financial services.
- "3. Operational support and training services.
- "4. Logistics support service.

"Included in these four categories are services such as surplus property disposal, post exchanges, commissaries, printing, family housing, internal audit, religious educational material and training, recruiting, weather, special services (recreation), and oversea dependent education.

"In analyzing these and other common services under the four categories mentioned above, attention will be given to the possibility of consolidating common services on major military installations, within major metropolitan areas, within geographical regions, and also on a national basis.

"As you know, progress already has been made in consolidating the managing of certain large common service activities. Among these are the Military Sea Transportation Service, the Military Air Transport Service, the Military Traffic Management Agency, and the Defense Communications Agency."

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., May 31, 1961.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Your letter of May 25, addressed to Secretary McNamara, has been forwarded to me for reply. You advised that hearings will be held on June 12 before your Subcommittee on Defense Procurement of the Joint Economic Committee.

I will be very happy to furnish the subcommittee with all the information you desire during my testimony. In the meantime, Mr. Ray Ward may contact Mr. Paul H. Riley, my deputy for supply and services, to work out the necessary arrangements for the hearings.

Sincerely,

THOMAS D. MORRIS,
Assistant Secretary of Defense
(Installations and Logistics).

JUNE 1, 1961.

Hon. JOHN L. MOORE,
Administrator, General Services Administration, Washington, D.C.

DEAR Mr. MOORE: The Procurement Subcommittee of the Joint Economic Committee plans to hold hearings on June 12, 1961, with respect to the status of matters covered by our report of October 1960 and related matters.

During the hearings in January 1960 upon which the October 1960 report was based, there was considerable discussion of the proper role of the General Services Administration vis-a-vis the Department of Defense with respect to the management of administrative supply and service activities. While you will not be asked to furnish a witness at the hearing on June 12, 1961, I should like, for the record, information as follows by that date:

1. A report as to the extent to which common supply activities for hand-tools, paint, etc., have been turned over to the General Services Administration by the Department of Defense and what actions are pending.

2. To what extent has the surplus property program been vested in the General Services Administration? What are future plans on this matter?

3. What changes, if any, have taken place in the utilities field including communications and transportation activities?

4. Has the Department of Defense taken exception to any activities of the General Services Administration pursuant to the proviso of section 201(a) of your basic act? (List.)

5. What action, if any, is pending toward reinstating a Presidential directive to preclude the Defense Department's exceptions to actions of the Administrator under section 201(a) of the basic act?

It may be advisable to have some of your staff available at the hearings on June 12 in case additional information is needed from the General Services Administration.

With best wishes.

Faithfully yours,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Defense Procurement,
Joint Economic Committee.

(See p. 87.)

JUNE 1, 1961.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
General Accounting Office, Washington, D.C.

DEAR MR. COMPTROLLER GENERAL: The Subcommittee on Defense Procurement of the Joint Economic Committee plans a 1-day hearing on June 12, 1961, with Department of Defense officials to determine what progress has been made in carrying out the recommendations of the subcommittee's report of October 1960.

We have also requested the Defense Department to furnish a complete listing of all common supply and service activities coming within the purview of the

McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958 and what actions, if any, have been taken or are contemplated to improve management with respect to each of them.

As a followup to your excellent testimony on January 28, 1960, before the subcommittee, I wonder if you could provide, for the record, your evaluation of the current status of procurement and related matters as revealed by your surveys during the past year.

With best wishes.

Faithfully yours,

PAUL H. DOUGLAS.

(See p. 63.)

JUNE 14, 1961.

HON. LUTHER H. HODGES,
Secretary of Commerce, Washington, D.C.

DEAR MR. SECRETARY: The Procurement Subcommittee of the Joint Economic Committee held hearings on June 12, 1961, with respect to the status of matters covered by our report of October 1960 and related matters.

During the hearings in January 1960, upon which the October 1960 report was based, there was a discussion concerning the impact of surplus disposal of personal property upon certain industries. As a result of this discussion the report contained the following recommendation:

5. The Commerce Department should be given definite authority of approval over surplus property disposals which may have adverse impacts on the national economy." (See p. XII of the report.)

The Subcommittee would like a statement that we could include in the record from you as to what the current situation may be with respect to the impact of disposals upon certain segments of our industrial complex. Specifically, we should like to know with regard to tractors, power cranes, locomotive cranes, and motor graders, and other heavy construction equipment.

It has been noted in the press that there is considerable complaint by dealers in the construction equipment industry about certain disposals by the Department of Defense.

Do you consider at this time that the Commerce Department should be given more definite authority over the disposal of certain classes of surplus property?

With best wishes.

Faithfully yours,

PAUL H. DOUGLAS.

(See p. 91.)

THE SECRETARY OF COMMERCE,
Washington, D.C., July 11, 1961.

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

DEAR MR. CHAIRMAN: This letter is in further reply to your request of June 14, 1961. It supplements the information sent to you under date of June 19, 1961, by Mr. Thomas E. Drumm, Jr., Acting Administrator of the Business and Defense Services Administration. Specifically, this is reply to your question "Do you consider at this time that the Commerce Department should be given more definite authority over the disposal of certain classes of surplus property?"

We have carefully considered what role this Department might best occupy in order to render maximum public service. As you have no doubt noted from Mr. Drumm's letter, the bulk of our market impact evaluation work derives from inquiries from military departments. By and large our agreed procedure, known as the Drake-Honeywell agreement after the 1954 signatories, has been working satisfactorily. While there have been instances to the contrary, these have in the main resulted from situations not anticipated in the agreement and for which no adequate provision had been made. As stated in our June 19 report, the most troublesome current and future problems are associated with the closing of military

bases in the United States and the establishment of 34 consolidated surplus sales offices in lieu of the approximately 315 sales offices heretofore in operation. The sales concentrations resulting from the closing of bases and consolidation of sales offices have tended to increase both the number and severity of market impact situations. We do not believe that this is merely a transient phenomenon. It will probably remain with us for some time to come. However, pending the outcome of current discussions aimed at solving the new and residual problems under the Drake-Honeywell agreement, we would prefer to work within the framework of existing law, and to reserve judgment on the question of additional legislative authority.

Under date of June 2, 1961, Mr. Drumm wrote to Mr. Thomas D. Morris, Assistant Secretary of Defense for Installations and Logistics, citing several market impact problems caused by closing of bases and consolidation of sales offices, and urging that immediate steps be taken to amend the Drake-Honeywell agreement. In a reply dated June 19, Mr. Morris' assistant, Mr. R. C. Moot, Director, Supply Management Policy, concurred in the need to develop sales plans for certain sensitive items and for updating the 1954 agreement.

The technical staffs of the two departments have already had several informal discussions on these subjects. We now look forward to the development of an amended agreement which will insure that surplus personal property will be disposed of at a fair return to the Government but with a minimum impact on civilian markets.

I have asked Mr. Drumm to advise you further on the outcome of these discussions.

Sincerely yours,

LUTHER H. HODGES,
Secretary of Commerce.

JUNE 22, 1961.

Hon. THOMAS D. MORRIS,
*Assistant Secretary of Defense (Installations and Logistics),
The Pentagon, Washington, D.C.*

DEAR MR. SECRETARY: Members of the Subcommittee on Military Procurement were most interested in your discussion at our hearings of the "two-step formal advertising" method of procurement used in selecting the successful bidders.

Could you supply for the record answers to the following questions:

1. Do you consider this two-step system to be advantageous to the contractors or to the Government?

2. If advantageous to the Government what are those advantages, specifically?

3. Has this method resulted in new Air Force contractors?

4. If so, are they new in the sense that they have not had previous Government contracts? Or are they merely new with respect to furnishing new types of equipment?

5. To what extent has the new two-step method permitted contracts to go to contractors who have had previous contracts in other lines?

Also, for the record, I should like to have a statement from you as to the use of so-called retail sales at military installations:

(1) At how many installations are these sales being held?

(2) What is the present scope or extent of the sales in terms of dollars?

(3) For the past fiscal year, advise as to the breakdown of sales to: (a) the public, (b) the Department of Defense personnel (military and civilian).

(4) What is the authority for these sales?

(5) Is there any plan to review the need for these sales and the policy regarding them?

With best wishes.

Faithfully yours,

PAUL H. DOUGLAS.

(See pp. 17, 75, and 80-81.)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington.

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

DEAR MR. CHAIRMAN: This is in reference to your letter dated June 1, 1961, requesting our evaluation of the current status of procurement and related matters in the Department of Defense as revealed by our reviews since appearing before your subcommittee last year. Pursuant to your request, the attached summary covers reports on reviews and examinations of these areas issued during the period October 1, 1959, to May 31, 1961. When we appeared before your subcommittee on January 28, 1960, we presented a summary of the more significant matters disclosed by our reports on reviews and examinations in the same areas, issued during the period October 1957 through September 1959.

Our reviews have disclosed conditions in the business management areas of the Department of Defense that offer excellent opportunities to save substantial sums of money and, at the same time, increase efficiency and effectiveness in buying and handling material in the defense effort. Equally important is the potential for saving a vast amount of manpower, both military and civilian.

Most of the problems existing are known to the Department of Defense. Each military department has groups to determine requirements for identical or similar items, as well as items especially needed by the services. Thus, in our opinion, it is obvious that a large amount of manpower and money are required to carry out functions that in many instances represent duplicated or overlapping effort.

We know there are no easy solutions to the problems. We believe, however, that the problems are of such magnitude and have such a serious impact on the economy of the country that aggressive efforts must be made to bring about improvements.

Provisions of the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958 that permitted the Secretary of Defense to combine common supply activities of the military departments under a single agency or organization were a most important step in the right direction. Several single manager plans have been put into effect. Others are scheduled for implementation this year and additional plans are under study. Whether these plans will attain the efficiency and economy anticipated is questionable because the single managers are not vested with the power and authority to properly manage the areas assigned to them. As we understand it, the single managers have little to do with the determination of requirements for a service or with control over inventories in the hands of the using services. Thus the single manager does not really have the authority or the ways and means to determine what he needs or what is available to satisfy needs. For these reasons we doubt that the establishment of a single manager of a commodity or service without complete authority to (1) monitor the entry of new equipment into the supply system, (2) review, coordinate, and consolidate requirements, (3) accomplish all procurements, (4) determine the depth and range of initial supporting spare parts for new items, (5) control all stocks, including mobilization and production reserve stocks, (6) control and manage maintenance programs, (7) store and distribute supplies and equipment, and (8) dispose of material excess to the needs of the Department of Defense, will result in significant improvements in supply management.

Our studies indicate that the coordination between the services in procurement and supply management has not been as effective as it should have been. The departments have been reluctant or less than enthusiastic in their participation in cross-servicing programs initiated by the Department of Defense. In addition to the desire to maintain a complete and separate identification, there is a natural tendency to want something brand new instead of something that is not quite as good or up to date. The necessity for arriving at a mutually agreeable price for material owned by another service is also a factor. All in all, we have found too many cases where one service is holding or disposing of property that is needed and actually being purchased by another service.

We are aware that the Department of Defense is seriously concerned about the interservice supply problems. We are hopeful that appropriate steps will be taken at an early date that will result in at least partial solutions to these problems.

Supply management within the services is another area that requires urgent attention in the Department of Defense. The records used as a basis for determining needs are frequently unreliable. We have found this to be true at almost all locations where we have made reviews of this nature. We have cited many

instances in our reports where the services did not know what they had; and even where the records showed that needed material was on hand, it could not be located. The unreliability of records is most serious because of their importance in determining what is needed, what is in the supply system, and what is to be bought. We have found many examples where millions of dollars worth of supplies were "lost" in the supply system for all intents and purposes. We have found excessive reserve stocks. In some cases, large amounts of reserve stocks were being retained where a need no longer existed.

In the procurement area, we have noted the strong tendency of the military departments to obtain material from single sources or with limited competition. Maximum competition has not been obtained for many contracts, including those that must be negotiated. Last year we appeared before the Armed Services Committees of the House and the Senate on this matter. We were pleased to learn that subsequently the Department of Defense accepted most of the principles advocated. These principles have now been embodied in the Armed Services Procurement Regulation.

In our audits of defense contracts we found, frequently, that the services were unable or failed to obtain reasonable contract prices. This was caused in large part by the failure to obtain the most current cost data available for the procurement in question. We are most gratified that the Department of Defense and the three military departments have taken action to bring about improvements in contract pricing. In the past year several important directives have been issued by the Secretary of Defense and changes have been made in the Armed Services Procurement Regulation which, if properly implemented, should result in the Government's obtaining more fair and reasonable prices.

If the policies outlined in the recent directives and procurement regulations are followed, many of the deficiencies noted by us in the procurement area should be minimized, but our experience has shown that the issuance of directives and changes in regulations does not always get the job done. Unless the Department of Defense maintains continuous surveillance over the manner in which its regulations and directives are being carried out, less than satisfactory results can be expected. The management of supply and procurement activities in the Department of Defense is a most vital, important, and continuing job.

Sincerely yours,

ROBERT F. KELLER,
Acting Comptroller General of the United States.

U.S. GENERAL ACCOUNTING OFFICE SUMMARY STATEMENT OF REVIEWS ON
- PROCUREMENT AND RELATED MATTERS IN THE DEPARTMENT OF DEFENSE

A summary of the more significant matters disclosed by the audits and examinations made by the General Accounting Office in the Department of Defense and the three military departments, as contained in reports issued to the Congress in the period October 1, 1959, through May 31, 1961, is submitted hereunder. The summary includes matters disclosed by our audits in the areas of military procurement, supply and service management activities, military assistance program, and other activities.

PROCUREMENT

The complexity of modern-day equipment, devices, and systems needed by the Department of Defense makes it increasingly difficult to secure effective competition or to forecast production costs with a reasonable degree of accuracy. We pointed out in our testimony before the subcommittee in January 1960 that preparation of accurate cost estimates upon which to base reasonable and equitable contract prices requires sound and earnest cooperative efforts of the contracting officials of both the Government and the contractor. Cost estimates represent not only a basis for establishing prices for a given item or service but also can provide a contractor with an incentive for attaining efficient and economical operations. If cost estimates or targets are not realistically prepared, that is, if they are either intentionally or inadvertently stated higher than current production cost experience and other available pertinent information would indicate to be reasonable to anticipate for future production, they result in unwarranted costs to the Government and unjustified benefits to the contractor.

Failure to negotiate close prices

In January 1960 we stated that our examinations had disclosed many instances where we believed the Government had paid excessive prices for goods or services because of the administrative agency's failure to obtain and adequately evaluate

latest available cost data in establishing prices and incentive targets. The 16 cases we reported to the subcommittee at that time cited excessive costs aggregating about \$27.8 million; \$18 million, which included civil penalties, was recovered by the Government.

In reports issued to the Congress since those summarized in our previous testimony, we found further instances where the Government has paid excessive prices under previously awarded contracts because of the administrative agencies' failure to obtain and adequately evaluate latest available cost data in establishing prices and incentive targets. In 22 additional cases we identified excessive costs aggregating about \$21.6 million, of which about \$8.5 million has been recovered.

As one example of the cases in which close pricing was not achieved, we found that the Air Force negotiated a price for fuel booster repair kits containing identified excessive charges of about \$566,000; this was because a certain quantity of screws were included in the price proposed for the kits at a cost far in excess of the price the contractor was paying for the screws at the time of negotiations. The Air Force, after receipt of our report, recovered \$559,000 from the contractor.

In another case the proposed prices submitted by a subcontractor, for use in negotiating firm fixed-price subcontracts with a prime contractor of the Air Force, were based on estimates of cost which were in excess of costs known to the subcontractor or which the subcontractor could reasonably expect to incur in performing the subcontracts. The prime contractor accepted, without review, the prices proposed by the subcontractor. The subcontractor, in commenting on our findings, informed us that price reductions would be made on its subcontracts, including those which we did not examine in detail. To date the price reductions made total \$3,408,800.

It should be noted that our reviews of contracts are generally undertaken after the establishment of target prices, after the point of initial or final price redetermination, or after final settlement of the contract. For this reason the findings cited in this statement relate, for the most part, to price negotiations which occurred prior to the period covered by this statement and before the more recent corrective measures taken by the Department of Defense were instituted. We have more recently initiated an audit program under which we will consider the effectiveness of the corrective measures instituted.

The corrective measures aimed at improving the contract negotiating process taken by the Department of Defense follow:

In October 1959 the Armed Services Procurement Regulation was amended to provide that, in the absence of effective price competition, the negotiating team must make a thorough analysis of the contractors' proposals and must be in possession of current, complete, and correct cost or pricing data before decisions are made on contract prices. To provide some assurance that the negotiating team is in possession of such data, the Armed Services Procurement Regulation was further amended to prescribe a certificate of current cost or pricing data to accompany the pricing proposals obtained. In executing the certificate, the contractor certifies, to the best of its knowledge and belief, that in the preparation of its proposal all actual or estimated costs or pricing data available have been considered in preparing the price estimate and have been made known to the contracting officer or his representative for his use in evaluating the estimate. The contractor further certifies that any significant changes in such data, which have occurred since the preparation of the proposal through the period of negotiation, have also been made known to the Government negotiator.

The Armed Services Procurement Regulation was revised in January 1961 to add a provision that a "price reduction for defective pricing data" clause be inserted in any negotiated fixed-price-type contract which is expected to exceed \$100,000, unless the contract price is based mainly on adequate price competition, established catalog or market prices, or prices set by law or regulation. The clause provides that, if the contracting officer determines that any price negotiated in connection with the contract was overstated because the contractor, or any first-tier subcontractor in connection with a subcontract having a similar clause, either (1) failed to disclose any significant and reasonably available cost or pricing data, or (2) furnished any significant cost or pricing data which he knew, or reasonably should have known, was false or misleading, then such price shall be equitably reduced and the contract modified in writing accordingly. The clause may be inserted in other contracts or modified to apply to subcontracts (including lower tier subcontracts) where the contracting officer considers that the circumstances of the particular case warrant such action.

Questionable use of authority to negotiate

It is our firm belief that procuring agencies should make every effort to permit full and free competition among all individuals and concerns which are ready, willing, and able to supply their needs and that effective competition may be expected generally to result in lower prices. The legislative history of the Armed Services Procurement Act of 1947 indicates that the Congress in expressing its preference for procurement by formal advertising had a twofold purpose in mind. First, the Government as a purchaser will receive the best bargain available and, second, suppliers in a position to furnish the Government's requirements will have a fair and equal opportunity to compete for a share of the Government's business.

On previous occasions we have expressed our concern with the extent to which negotiated procurement is being used by the Department of Defense in satisfying its needs and with the failure of the procuring agencies to obtain competition in negotiated procurements when competition is available. The most recent of these occasions was in testimony before the Subcommittee for Special Investigations, Committee on Armed Services, House of Representatives, on May 24, 1961, in which we discussed our findings with respect to procurement of aeronautical replacement spare parts.

We found that in actual practice the military services continued to buy the vast majority of aeronautical replacement spare parts from the original manufacturer of the military equipment involved even though many to the items bought could have been made by several manufacturers or were items that were completely fabricated by a subcontractor to the original manufacturer, using drawings and technical data that were, or should have been, in possession of the Government. Therefore, it is our opinion that there has been a substantial amount of unjustified noncompetitive procurement of these parts.

It is our belief that vigorous steps should be taken by the Department of Defense and the military departments to stop the current excessive use of negotiated non-competitive contracting and to correct the unsatisfactory conditions that exist in the military services in the control over and use of technical data. In our statement to your subcommittee in January 1960, we stated that we believe that the Government is frequently denied the benefits of competition through failure of procurement officers to obtain or reserve the right to obtain manufacturing drawings prepared by contractors at Government expense and cited some of the conditions found at one large procurement office.

In a report we issued to Congress in January 1961, it was disclosed that, because the Army Ordnance Corps, Ordnance Tank-Automotive Command, did not adequately control the delivery, review, and correction of drawings and engineering data obtained from a contractor under a development contract for semitrailers, the drawings and engineering data were not suitable for use in time for followon procurement of 509 vehicles. As a result, the previous manufacturer was considered the sole source of these semitrailers and received a negotiated fixed-price contract totaling in excess of \$4.5 million. Had suitable drawings been available for this procurement and had formal advertising been used, it seems reasonable, on the basis of the price subsequently obtained under formal advertising procedures and information furnished by the successful bidder, that the cost to the Government would have been reduced by about \$875,000.

In our more current review of the procurement of aeronautical replacement spare parts, we looked into conditions existing in the Air Force, Army, and Navy with regard to the receipt, control, and availability for use of technical data furnished to and paid for by the Government under defense contracts. Briefly, the following conditions were found:

Department of the Air Force

In the earlier review in the Department of the Air Force, we concluded that the maximum benefits of competition had not been realized in the procurement of military equipment, components, and spare parts because of (1) inadequate provision in contracts for use by the Government of contractor-furnished data acquired at Government expense, (2) unnecessarily restricted interpretations by the Air Materiel Command, Wright-Patterson Air Force Base, Ohio, of the Government's rights where use of data was not expressly restricted, and (3) inadequate controls and procedures for the receipt and use of such data. Our followup review disclosed no instances where the Air Force had failed to include unequivocal provisions regarding the Government's rights to technical data in contracts awarded.

Although substantial progress has been made by Air Materiel Command since our first review in 1957-58, there is a continuing need to establish the rights of the Government to use data furnished under a significant number of earlier Air Force contracts. We found that little progress had been made in the establishment of adequate procedures and controls over the receipt and storage of contractor-furnished data.

Department of the Navy

In a report to the Congress in January 1960, we described what we believed to be serious deficiencies in the Navy's receipt, control, and use of contractor-furnished technical data. These included (1) lack of any assurance that all drawings required to be submitted by contractors are received, (2) failure to use drawings for advertised procurement, and (3) indications of misuse by the Aviation Supply Office of the authority to negotiate. In our current review of procurement of aeronautical spare parts we found that, although the Navy files contained complete and current technical data in a large percentage of the cases examined, there was still a need for improvement in the Navy procedures for controlling the receipt of technical data.

With regard to the other two deficiencies, we found that little progress had been made in using the technical data as a basis for competitive procurement. Consequently, there continued to be reasons for our doubting that many of the findings and decisions to negotiate purchases constitute proper use of the authority to negotiate when it is impracticable to obtain competition.

Department of the Army

In our review of conditions existing in the Army with regard to receipt, control, and use of contractor-furnished technical data for procurement of aeronautical replacement spare parts, we examined one activity, the U.S. Army Transportation Materiel Command, St. Louis, Mo.—the Army agency responsible for aviation supply support.

We found, in general, that the Transportation Materiel Command did not consider the contractor-furnished data in its files to be adequate for procurement purposes and, further, that it did not have any effective means of determining the rights of the Government to use the data for competitive buying. We were informed that the drawings and other data available to the command were confined, for the most part, to those required in operations maintenance and supply support. The command took the position that what the Government buys from the prime contractor in the way of drawings and specifications is the responsibility of either the Air Force or the Navy, whichever procures the aircraft for the Army, and that the Army has little information on the Government's rights to use the drawings. It is our opinion that, since the U.S. Army Transportation Materiel Command has assumed the responsibility for procuring its own replacement spare parts for equipment supplied under Air Force and Navy contracts, it should also assume the responsibility of maintaining, or obtaining access to, complete technical data files suitable for procurement purposes as well as up-to-date information on the Government's rights to use such data.

In our review of aeronautical replacement spare parts, we found that, where the military services changed from sole-source to a competitive basis of procurement, price decreases averaged about 30 percent. We believe that this demonstrates the benefits to be derived by the Government from adequate control of technical data and its use for competitive procurement purposes; and we further believe that more vigorous action is necessary to maintain complete files of such data and to make them readily available to procurement officials.

Corrective measures taken by the Department of Defense include the following changes in the armed services procurement regulation:

In October 1960, the armed services procurement regulation was revised to state affirmatively a preference for formal advertising whenever this method is practicable under the existing conditions and circumstances, even though negotiation may otherwise be authorized.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., July 26, 1961.

Mr. RAY WARD,
Care of Joint Economic Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. WARD: In response to your request for copies of the comments made by DOD with respect to several GAO reports, we are at this time forwarding the comments on the following reports:

- (1) Thompson Ramo Woolridge, fuel booster pump repair kits.
- (2) Thompson Ramo Woolridge, spare parts.
- (3) Fruehauf Trailer.
- (4) Allison division.
- (5) Hughes Aircraft.
- (6) North American Aviation, Rocketdyne.
- (7) Kearfott.
- (8) Reaction Motors Division, Thiokol.

In those cases in which we were required to furnish a statement to the Bureau of the Budget pursuant to BOB Circular A-50 of April 1, 1959, copy of the statement is attached. Otherwise we have attached copies of DOD letters to GAO. Our basic comments in the latter cases are to be found in the GAO reports themselves where they are usually included as an appendix.

With respect to Bendix, Continental, Holly Carburetor, and Avco, no A-50 statement and no comment to GAO on the final report was required. Any comments made by DOD in these cases are referred to in the reports themselves.

We are obtaining the papers on the other cases that you listed and will forward them as soon as we receive them.

Sincerely yours,

GRAEME C. BANNERMAN,
Deputy Assistant Secretary of Defense (Procurement).

DOD STATEMENT FOR THE BUREAU OF THE BUDGET (PURSUANT TO BOB
CIRCULAR A-50, APR. 1, 1959)

Concerning GAO Report B-133307 dated May 10, 1960, Department of the Air Force negotiated contract AF 01(601)-20268 with Thompson Ramo Woolridge, Inc., Cleveland, Ohio

The problem

General Accounting Office Report No. B-133307 covers an examination of the pricing of fuel booster pump repair kits under Department of the Air Force negotiated contract AF 01(601)-20268 with Thompson Ramo Woolridge, Inc., Cleveland, Ohio.

The substance of the allegation contained in the General Accounting Office report is as follows:

The examination shows that the price paid under referenced contract was excessive by about \$565,600 because one component of the fuel pump repair kits consisting of 272,710 new-type fillister head screws was included in the price of the kits at a base standard cost of \$1 each whereas the actual cost of this component to the contractor turned out to be \$0.055 each. The General Accounting Office maintains that the standard cost set by the contractor for this component was not realistic because (i) while the component had in fact been previously purchased at \$1 each, the purchase was of a special nature, for only 116 fillister head screws and required air delivery within 4 days to the contractor's Cleveland, Ohio, plant, and (ii) the standard did not take into consideration quantity purchasing nor comparative cost standards based on similar components with adjustment for physical variances in the new component.

Recommendations by GAO

1. That every effort be made to obtain an appropriate price adjustment.
2. That the Secretary of Defense direct personnel of the military services to perform a closer analysis of proposed prices which are based on standard costs and application of variance factors to assure that the resultant cost to the Government is reasonable.

Statement

The allegation made by the General Accounting Office with respect to the excessive amount included in the contract price for the fillister head screw is correct. As noted in the report, the contractor had actually incurred a cost

of \$1 each for the fillister head screws under an initial purchase for the Air Force. However, this figure should not have been used as the basis for establishing a standard cost for the item in view of the unusual circumstances under which the initial purchase was made. Also the standard was established without benefit of comparison with similar components being purchased at a fraction of the standard cost set for the new component and without benefit of providing graduated or sliding-scale standards for quantity purchases or production.

After exhaustive consideration by the contractor at the highest level and by the Office of the Assistant Secretary of the Air Force, the contractor has offered and the Air Force has agreed to accept a voluntary refund of \$559,204.46. This refund takes into consideration the overpricing of \$565,600 under contract AF 01(601)-20268, and four additional items under contracts AF 34(601)-4833 and AF 01(601)-24098, which involved \$176,249.46. The pricing circumstances involved in the four items under the latter two contracts were considered to partake of at least some of the characteristics of the screw case. The contractor would agree to no larger refund and has agreed to this settlement with great reluctance. It is the view of the Assistant Secretary of the Air Force (Materiel), concurred in by this office, that this is the best adjustment obtainable.

The Air Force and the contractor are presently endeavoring to establish an improved system of spare parts pricing intended to result in prices which are fair and equitable to both parties. Furthermore, Air Force procurement personnel have been directed to accomplish a more intensive review of all pricing actions conducted with this contractor.

With respect to contractors generally, increasing emphasis has been placed on surveys of contractors' accounting and estimating systems in order to assure the effectiveness of these systems in producing price proposals that reasonably reflect the contractors' latest and most complete cost and price experience. Intensive efforts are being made to bring about the correction of deficiencies revealed by these surveys. This is clearly a task of major magnitude and indefinite duration. Following approval of a contractor's system, surveillance must continue to be maintained, using testchecks, audits, and other means to insure the continued effectiveness and dependability of the contractor's accounting system and estimating practices.

With specific reference to contractors' use of standard cost for estimating purposes, this subject is covered in section 4-1.400 of the Contract Audit Manual. The increased use of prenegotiation audits in accordance with current procedures as set forth in ASPR 3-809 and in departmental directives has proven increasingly effective in alerting contracting personnel to inadequacies and questionable areas on contractors' estimating methods, including deficiencies in the use of standard costs. Present policy and procedures will continue to be reviewed (1) to insure that maximum effective use is being made of audit services and (2) to determine whether additional guidance should be provided auditors and contracting personnel in connection with the analysis and evaluation of contractors' accounting systems and estimating practices.

DOD STATEMENT FOR THE BUREAU OF THE BUDGET (PURSUANT TO BOB CIRCULAR A-50, APRIL 1, 1959)

Concerning GAO Report B-133307, dated July 29, 1960, "Examination of the Prices Paid for Spare Parts under Department of the Air Force Contracts AF 01(601)-20268 and AF 34(601)-4833 with Thompson Ramo Wooldridge, Inc., Cleveland, Ohio" (OSD Case No. 1426)

The problem

GAO alleges that neither the contractor nor the Air Force exercised sufficient care in pricing spare parts and, consequently, neither party had assurance that the prices were fairly established and correctly billed. The report alleges that spare parts pricing billed by Thompson, and paid by the Air Force, included excessive charges for packaging and excessive amounts for certain spare parts. The overcharges totaled \$56,326. The GAO recommended that the Secretary of the Air Force require contracting officials to take prompt action to amend contract billing prices when there are changes in the services to be performed and to make adequate verification of the charges to the Government.

Statement

Thompson refunded \$51,120 to the Air Force and corrected an error of \$5,206 in the packaging charges for parts to be delivered. These adjustments totaled \$56,326.

The Air Force concurred in the recommendation of GAO and took appropriate action to emphasize the need for thorough review of charges to be borne by the Government and for taking prompt action to amend contract billing prices when there are changes in the services to be performed.

DOD STATEMENT TO THE BUREAU OF THE BUDGET (PURSUANT TO BOB CIRCULAR A-50, APRIL 1, 1959)

GAO Report B-133346—Examination of Procurement of 5,000-Gallon Capacity Semitrailers by Department of the Army from Fruehauf Trailer Co., Detroit, Mich.

The GAO Report is based upon its examination of the procurement of 5,000-gallon capacity semitrailers from Fruehauf Trailer Co. under development contract DA-20-018-ORD-14233 and production contract DA-20-018-ORD-15786. Both contracts were awarded by the Department of the Army, Detroit Ordnance District, Detroit, Mich., pursuant to a procurement directive from the Ordnance Tank-Automotive Command (OTAC). The development contract as amended called for the delivery of four pilot models of the semitrailer together with one set of original drawings prepared to "facility standards." These drawings were to be sufficiently complete to permit preparation of Ordnance Corps standard drawings. The contractor's drawings were received in January 1957, following the delivery of the pilot models, and conditionally accepted. Fruehauf was later advised of corrections and revisions required. Revised drawings were completely accepted in December 1957.

In June 1957 a first production contract for 509 vehicles for the fiscal year 1957 program was awarded to Fruehauf at a unit price of \$8,813. This fixed-price contract was negotiated with the contractor as sole source, since Ordnance standard drawings were not available. The production contract added an allowance of approximately \$21,000 for converting the facility drawings to Ordnance standards.

In February 1958, when Ordnance standard drawings were available, OTAC solicited competitive bids by formal advertising procedures for an additional quantity of 345 semitrailers. Fruehauf bid \$7,604 a unit for this procurement. The successful bidder quoted a price of \$6,295 a unit.

The GAO reports that, because the Army Ordnance Corps, Ordnance Tank-Automotive Command, did not adequately control the delivery, review, and correction of the drawings and engineering data obtained from Fruehauf under the development contract, they were not received on time and were not suitable for use in connection with the first production contract. The award of the contract to Fruehauf as sole source may have resulted in an extra cost to the Government of approximately \$875,000.

The Army takes the position that the drawings as first released by Fruehauf were facility drawings, prepared by the manufacturer to coordinate with his individual production processes. In procurements instituted by OTAC only in rare and unusual instances have facility drawings been used by another manufacturer for production processes. At the time of the questioned procurement, the preparation of production drawings suitable for obtaining competitive procurement required approximately 12 months after the receipt of acceptable facility drawings. The time lapse was due in part to the backlog at OTAC caused by the great volume of drawings furnished in connection with contracts of this type. During the period January 1957 through February 1958, OTAC received 128,212 drawings involving 137 open contracts of all types. The number of facility drawings furnished in connection with the Fruehauf contract amounted to 211. When converted to Ordnance standard format, the total was 1,247 pieces. If facility drawings had been furnished in October 1956, the due date indicated by GAO, and review could have been immediately undertaken, Ordnance standard drawings could not have been made available for the 1957 procurement. This conclusion is based on the time actually required by Fruehauf to translate the drawings to Ordnance standard production drawings, as provided for in contract ORD-15786. Procedures have now been instituted to accelerate review and acceptance of facility drawings. These procedures are being carefully implemented.

The GAO computation that, had drawings been available and formal advertising procedures been used for the first production buy, the cost to the Government might have been less by approximately \$875,000, is based upon a statement made by the successful bidder in a later procurement. In response to an inquiry by the GAO, the bidder stated that, had it been solicited for the production in 1957, it would have bid approximately \$800 a unit more at that time than it bid in 1958, due to market conditions and higher material and labor costs in May 1957. In computing the estimated savings, the GAO has used the price of the successful bidder in 1958 plus \$800 a unit. In the opinion of the Army, this estimate is speculative. The 1958 bids may have been affected by the fact that subcontract sources had already been established. Further, bids solicited in 1957 on a first production run might have shown a different price pattern than the one which developed in 1958. In short, while there is no question that competitive procurement if feasible would probably have resulted in lower costs, we cannot agree with GAO's estimate and consider it unrealistic and conjectural.

The GAO final report and the transmittal letter note that OTAC has revised and accelerated its procedures. The report and the letter also note that the Assistant Secretary of the Army (Logistics) made a statement before the Senate Committee on Armed Services in May 1960 to the effect that the Army is aggressively working to obtain and use drawings and specifications which will permit increased competition in its procurements.

Attention is invited to ASPR to 9-202.1(C), dated July 1, 1960, which advises contracting officers of the Department of Defense policy on the acquisition and use of data in connection with contracts for experimental, developmental, or research work and subcontracts thereunder. Further, contracting officers are fully cognizant of the policy that, unless indications are clearly to the contrary, the approved method of procurement is through formal advertised bidding.

In conclusion, the Army fully recognizes the significance of competitive procurement as a vital means of reducing costs. Furthermore, the Army contracting officials responsible for the contracts under discussion were fully aware at that time of the importance of seeking competition. This is evidenced by the fact that the development contract which preceded the Fruehauf production contract was made on the basis of widespread competition. Similarly, the follow-on contracts were placed on the basis of competition under formally advertised procedures. Without doubt, it would have been in the Government's interest if the procurement in question could also have been handled competitively, but in the judgment of the contracting officials who were responsible the data available was inadequate for this purpose. As discussed above, the lack of adequate data in this case was due to an unusual backlog situation which has progressively improved since that time. Also, since the time of this procurement increased efforts have been directed to insuring that maximum effective use is made of competition and, to this end, that DOD policies and procedures for obtaining and utilizing data for procurement purposes are thoroughly understood and effectively applied throughout the military services.

This particular report will be given widespread distribution so that the facts may be brought to the attention of procurement personnel in the Navy and Air Force as well as the Army.

DOD STATEMENT FOR THE BUREAU OF THE BUDGET (PURSUANT TO BOB
CIRCULAR A-50, APR. 1, 1959)

Concerning GAO Report B-133341 dated January 5, 1961, on "Examination of the prices negotiated for J-71-A-11 aircraft engines under contract AF-33(600)-23143 with Allison Division, General Motors Corp., Indianapolis, Ind.

Statement

The report alleges that the price of \$58,985,520 to the Government for J-71-A-11 aircraft engines delivered during 1955 included estimated costs which were excessive by approximately \$1,480,000. It is further alleged that these excessive costs resulted from inclusion in the negotiated price of (1) estimated costs for minor parts and labor which were excessive in the light of cost experience available at the time of negotiations and (2) increased estimated costs for major components at a higher cost than that of inplant production, without providing for the negotiation of a price adjustment, if the make-or-buy plan were changed. It is also alleged that the contractor at its own discretion deviated from the plan and incurred substantially lower costs.

GAO recommendations

1. That the Air Force make every effort to obtain an appropriate price adjustment.
2. That current make-or-buy regulations be amended to provide for price adjustments where significant changes are made in the make-or-buy structure on which the contract price was established.

Comments

Subject contract dated January 5, 1953, provided for a retroactive and prospective revision of price upon delivery of 25 percent of the engines (J-71-A-9) and spare parts. Certain of these engines were redesignated as J-71-A-11 engines and the instant report relates to overpricing of 257 such engines delivered in 1955. The contract provided for an optional demand for repricing which could have been exercised in July 1955 by either party to the contract. This repricing option was not exercised by either party. However, in April 1955, prospective prices were established for the J-71-A-11 engines and the repricing option not having been exercised, the prices became firm fixed price for engines to be delivered during 1955.

With respect to requesting a refund from the contractor, notwithstanding the opinion set forth in a letter of June 21, 1960, from the Assistant Secretary of the Air Force to the Comptroller General, in response to the draft report of September 15, 1959, informing the Comptroller General that there was not a sufficient basis on which to reopen and reprice a fixed price contract which presumably was negotiated in good faith, the Air Force has made a formal request on the contractor for a refund adjustment in accordance with the recommendations of the Comptroller General. The contractor has not yet responded to this request of February 13, 1961.

As to the second recommendation, there is some question as to whether or not the clause prescribed by ASPR 3-902(h) vests in the contracting officer authority to require a change in the contract price as a condition to granting authority to the contractor to make a change in its "Make-or-Buy" program or whether a specific provision should be inserted in the contract clause to cover such a contingency and whether the regulation as such should be amended to provide guidance or instructions in this matter. The ASPR Committee has been requested to undertake a study of this matter.

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., May 23, 1961.

The Honorable the COMPTROLLER GENERAL OF THE UNITED STATES.

DEAR MR. COMPTROLLER GENERAL: We have reviewed report B-125071 of April 14, 1961, on the pricing of certain Air Force contracts with Hughes Aircraft Co. and we concur in your findings and conclusions.

We concur also in the recommendation that this case should be brought to the attention of contracting officials of the military departments. One means by which we propose to do this is through widespread distribution of the report itself among procurement personnel and auditors. For this purpose additional copies of the report will be needed. We would therefore appreciate a loan of the duplimats used in the printing of the report. As you know, arrangements for such loans were recently worked out between Mr. William A. Newman, Jr., of your office and Mr. W. Carl Blaisdell, Deputy Assistant Secretary of Defense (Comptroller), and a few duplimats have already been furnished to this office.

We would also appreciate receiving the duplimats on two other reports that we think should be given wide distribution: B-133164 dated February 15, 1960, on the review of the treatment of suppliers' price reductions by Fairchild Engine & Airplane Corp., and B-133158 dated January 27, 1961, on the examination of prices negotiated for coordinated data transmitting sets under Air Force contracts with Burroughs Corp.

Your cooperation in this matter is greatly appreciated.

Sincerely yours,

GLENN V. GIBSON,
Deputy Assistant Secretary of Defense
(Requirements and Readiness Planning).

DEPARTMENT OF THE AIR FORCE,
OFFICE OF THE ASSISTANT SECRETARY,
Washington, May 10, 1961.

HON. JOSEPH P. CAMPBELL,
The Comptroller General of the United States.

Dear Mr. CAMPBELL: This refers to your letter of February 15, 1961, to the Secretary of Defense with attached report on examination of the target price of Department of the Air Force contract AF 04(647)-287 with North American Aviation, Inc., Rocketdyne Division, Canoga Park, Calif.

I appreciate and agree with your comment to the effect that actions taken or contemplated by the Air Force and the contractor in this case should result in an appropriate settlement for the overestimated material and subcontract costs disclosed by your examination and should reduce the possibility of a similar situation occurring in future procurements.

Supplemental agreement No. 19 was executed under the above contract on April 20, 1961, which effected downward adjustment of the target price in the amount of \$297,167.16 as compared with "about \$294,800" figure recommended in your report.

We appreciate your calling these matters to our attention and the opportunity to comment on your report.

Sincerely,

JOSEPH S. IMIRIE,
Assistant Secretary of the Air Force.

DEPARTMENT OF THE AIR FORCE,
OFFICE OF THE SECRETARY,
Washington, June 2, 1961.

The Honorable the COMPTROLLER GENERAL OF THE UNITED STATES.

DEAR MR. COMPTROLLER GENERAL: Reference is made to our letter of December 21, 1960 in connection with your examination of the pricing of Department of the Air Force fixed price contract AF 33(600)-28999 with Kearfott Co., Inc., Little Falls, N.J.

The Air Force has referred this case to the Department of Justice and it is now being considered by the Civil Division of that Department. We have been asked by the Justice Department to suspend further negotiations with the contractor on the matter.

In view of the above, no further action will be taken by the Air Force in this case, pending advice from the Department of Justice.

We appreciate this opportunity to furnish you with our comments on this report.

Sincerely yours,

JOSEPH S. IMIRIE,
Assistant Secretary of the Air Force (Materiel).

DOD STATEMENT FOR THE BUREAU OF THE BUDGET (PURSUANT TO BOB
CIRCULAR A-50, APRIL 1, 1959)

Concerning GAO Report B-133304 dated June 10, 1960, on "Pricing of Master Indicators of the N-1 Compass Under Department of the Air Force Contract AF 33(600)-28999 With Kearfott Co., Inc., Little Falls, N.J."

The problem

The GAO alleges that prices negotiated under subject fixed-price contract were excessive by approximately \$498,700 although historical costs available to the contractor as a result of prior manufacture of the N-1 compass system should have resulted in negotiation of prices that were lower by this sum. The GAO acknowledges that actions taken by the Air Force "if properly executed, should contribute significantly to the negotiation of fair and reasonable contract prices and should help to prevent a repetition of the deficiencies which occurred in negotiating prices under contract AF 33(600)-28999." (See p. 13 of subject GAO report.) GAO has recommended that the Air Force take all possible action to recover for the Government the excess costs incurred under the contract.

Statement

The Air Force has called this case to the attention of its procurement personnel as an illustration of the need for more critical review of historical cost data and work in process costs.

Demand for an equitable refund was first made on the contractor in January 1960, as a result of GAO findings in its draft report of November 6, 1959, on this case. Demand was again made on March 1, 1960, at a conference of Air Force and contractor personnel at Air Materiel Command. The contractor has consistently maintained that it will not make a refund. The contractor's refusal is based on the contention that overpricing brought to light by GAO is an isolated instance and should not be considered alone but should be considered in conjunction with other contracts for the same and similar items. In this connection, the subject contract, the sixth buy, was awarded in February 1955 and deliveries were made during 1955 and 1956. Two subsequent buys of the N-1 compass system were made on which deliveries were made during 1956 and 1957. During the 3-year period, 1955-57, the contractor was also supplying a comparable system to the Air Force, the J-4 compass system. The contractor's records show that during the 3-year period 1955-57 and based on sales of the two systems aggregating \$25,148,000, the contractor realized profits of \$130,000 before interest and Federal taxes, or 0.005 percent (five-tenths of 1 percent on cost of sales). Based on this background, the contractor has refused a refund in the instant case.

It is considered improbable that a refund will be obtained in this case. However, all possible remedies will be explored before closing the case.

DOD STATEMENT FOR THE BUREAU OF THE BUDGET (PURSUANT TO BOB
CIRCULAR A-50, APRIL 1, 1959)

Concerning General Accounting Office Report No. B-133042 on its examination of the pricing of subcontracts issued to Reaction Motors Division, Thiokol Chemical Corp., Denville, N.J., by Convair, a Division of General Dynamics Corp., San Diego, Calif., under Department of the Air Force Prime Contract AF 04(645)-4

The problem

The GAO alleges that proposed subcontract prices of \$511,400, submitted by Reaction Motors to Convair for fuel booster valves and liquid oxygen booster valves were excessive by \$103,500 because the prices included substantial provisions for unwarranted contingencies and costs of duplicate parts. The GAO alleges that Convair accepted, and the Air Force approved, the subcontract prices proposed by Reaction Motors without making a critical review of the estimated costs of producing the valves. Reaction Motors refunded \$87,800 to Convair under these subcontracts and \$47,200 under other subcontracts the GAO did not examine. The final report contained two recommendations:

1. That it is important for the Air Force to determine why an Air Force review of the purchase orders covered by the report failed to disclose the existence of excessive costs;
2. That an additional refund of \$15,700 was in order.

Statement

In its preliminary draft report the GAO requested that the Air Force bring the findings of the report to the attention of procurement personnel to emphasize the need for prime contractors to make timely reviews of subcontractors' proposals and a need for closer surveillance by the Air Force over the prime contractor's subcontracting practices. An article covering this subject appeared in the October 1959 issue of the Procurement Information Bulletin.

In connection with the first recommendation the following information has been developed.

The four fixed-price purchase orders on which the GAO assesses the extent of excessive pricing in the report are:

Purchase order No.	Date issued	Amount
430072-SDM.....	July 3, 1957	\$145,324
430073-SDM.....	do	293,799
499979-SDM.....	Aug. 1, 1957	47,745
2282-A.....	Apr. 8, 1958	24,570
Total.....		511,438

Because of the extreme urgency of the Atlas program at the time, the Air Force administrative contracting officer at Convair waived the requirement for detailed Air Force review of the purchase orders in question to expedite placement of the orders.

On the question of the adequacy of the Newark Air Procurement District's review of the purchase orders in question, there is considerable doubt on the basis of the information available to the Air Force at this time, that such purchase orders were in fact reviewed by the Air Force. The cost analysis files of the Newark Air Procurement District were routinely destroyed many months before the present matter was raised. The only record retained was a cost analysis register file. An examination of this file indicates that the Newark APD did not in fact review the purchase orders examined by the GAO, although it did examine purchase orders which followed those to which the GAO report addresses itself. Apparently the analysis of these followon purchase orders did not encompass an examination of historical course data to the extent that the excessive prices of the purchase orders examined by the GAO revealed.

A misleading implication may be drawn from the last paragraph on page 3 of the General Accounting Office report which states: "The primary responsibility for review of subcontract prices proposed by Reaction Motors rested with Convair, but in early 1958 this responsibility was delegated to the Newark Air Procurement District, a subordinate unit of the Air Materiel Command." The primary responsibility for review of subcontract prices at all times rests with the prime contractor as a part of his contractual obligation and may not be delegated to the Air Force or to a subordinate unit thereof. Any review of subcontract prices made by the Air Force is solely for the added protection of the interests of the Government and does not relieve the contractor of any portion of his responsibilities under the contract.

As stated on page 11 of the General Accounting Office report, actions taken by the Air Force and the Department of Defense should strengthen the control and supervision over contractors' subcontracting practices. In this connection, in addition to other actions taken, the Convair purchasing system was surveyed by Air Force personnel in October 1957 at which time 11 recommendations for improvement were accepted by the contractor. At that time Convair was required to seek Air Force approval prior to placing any fixed-price subcontract in excess of \$25,000 and prior to placing any cost reimbursement type subcontract. These limitations are still in effect. During the period from October 1959 to May 1960 the contractor's purchasing system was again surveyed. As a result of this second survey, 54 recommendations and observations were given to the company and the company agreed to adopt 52 of them. In December 1960 the system was re-surveyed to evaluate the contractor's progress in making necessary changes. As a result of the last survey, local Air Force authorities have recommended to Headquarters, Air Materiel Command, that the \$25,000 limitation referred to above be increased to \$100,000. A decision on the recommendation will be made in the near future.

With respect to the second recommendation, a review was made of the previous refund of \$87,800 and Convair was requested to reopen negotiations with Reaction Motors to obtain an additional refund of \$15,700. As a result, Reaction Motors forwarded a check for \$15,700 to Convair which has been credited to the Air Force on contract AF-04(645)-4.

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., July 7, 1961.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: This refers to your letter of June 22, 1961, requesting supplemental information for the record concerning the recent hearings held by the Subcommittee on Military Procurement.

The enclosure sets forth our replies to the five questions asked relative to retail sales at military installations. Since your questions concerning two-step formal advertising required operational experience to be obtained from the military departments, we have requested this information which should be forwarded to you within a week.

There is also enclosed a corrected transcript of the hearings, which we are forwarding at the request of the clerk of the subcommittee.

Sincerely yours,

GLENN V. GIBSON,
Acting Assistant Secretary of Defense (Installations and Logistics).

(See p. 62.)

ADDITIONAL INFORMATION FOR THE RECORD REQUESTED BY SENATOR DOUGLAS, CHAIRMAN, SUBCOMMITTEE ON MILITARY PROCUREMENT, JOINT ECONOMIC COMMITTEE

DOD USE OF SO-CALLED "RETAIL SALES"

Question. At how many installations are these sales being held?

Answer. Activities of the DOD use this surplus retail sales technique as follows:

U.S. territories and possessions (domestic).....	147
Overseas.....	63
Total.....	210

It should be noted that most of these retail sales stores are not open for business on a continuous basis. In some cases stores are open as infrequently as 1 day per month. Stores operation is contingent upon the generation of surplus which is appropriately disposed through this technique.

Question. What is the present scope or extent of the sales in terms of dollars?

Answer. Activity in the use of the retail sales technique is comparatively small. Its use, as compared with total sales (excluding scrap) for the first 9 months of fiscal year 1961, is shown in the following table:

[Dollars in millions]

	Total sales ¹	Proceeds	Percent return
Worldwide:			
All sales.....	\$1,255.5	76.3	6.1
Retail.....	18.8	3.1	16.5
Domestic:			
All sales.....	1,122.8	62.3	5.6
Retail.....	12.6	2.3	18.4
Overseas:			
All sales.....	132.7	14.0	10.4
Retail.....	6.2	.8	12.6

¹ This figure is the value at which property was carried on inventory records. It does not reflect condition, depreciation, obsolescence or market value, either appraised or actual. Depreciation accounting is not maintained by the Department of Defense.

Question. For the past fiscal year, advise as to the breakdown of sales to: (a) the public; (b) DOD personnel (military and civilian).

Answer. The Department of Defense does not maintain data which would indicate separately, by customer affiliation, the amounts of property sold through this technique. As regards domestic operations, store business is widely known throughout its locale and there is no basis for estimating the number of customers, or the volume of their purchases, which might be characterized as "general public." It is a fairly safe assumption, however, that most sales conducted in oversea operations are to DOD personnel, which is almost entirely attributable to the geography involved.

Question. What is the authority for these sales?

Answer. Surplus sales are conducted under the provisions of the Federal Property and Administrative Services Act of 1949, as amended. Sales conducted within the United States are carried out under the general provisions of title II, section 203(e), while oversea operations are carried out under the provisions of title IV. Retail sales are regarded as a fixed-price negotiated sale. Sales under section 203(e) are carried out under a delegation from the General Services Administration.

Question. Is there any plan to review the need for these sales and the policy regarding them?

Answer. Yes. The DOD and the GSA have had this question under consideration since early spring of this year. The policies, criteria, and dimensions of retail sales are now under study in this Department and determinations as to continuance or discontinuance of the technique as a merchandising device will be made as soon as our analyses are completed. It is expected that conclusions will be reached on this matter in the very near future.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington D.C., April 17, 1957.

Mr. C. D. BEAN,
Commissioner, Federal Supply Service,
General Services Administration,
Washington, D.C.

DEAR Mr. BEAN: During the last year or so a number of military activities on occasion have utilized retail sales as another method to sell surplus personal property. Retail sales are considered negotiated sales and the authority therefore would stem from section 203(e) of the Federal Property and Administrative Services Act of 1949, as amended. Accordingly, the use of this provision for retail sales has been authorized within the framework of regulations of the General Services Administration, title I, personal property management, chapter IV, section 302.00.

However, during recent discussions between our respective staff members, the value of using retail sales was questioned. While the Department of the Army has been conducting such sales with full knowledge of both our offices, neither your regulations nor ours specifically provide the desired guidance.

In general, the use of retail sales has been limited to small quantities of miscellaneous types of property having appeal to the individual or end user and has resulted in an appreciable increase in the gross rate of recovery as related to the acquisition cost of the property sold. Based on the best available cost data, it is believed that this method also provides maximum net returns. Use of the retail sale method by more military activities will, of course, broaden our customer base since it is the only type sale at which military and civilian personnel of the armed services are permitted to buy surplus property.

It is not our intention to consider retail sales as a substitute for the normal auction, sealed bid or spot bid methods, but rather as an additional tool in our merchandising program. Therefore, and for the reasons above, this Office proposes to revise its instructions by prescribing uniform policy for the conduct of retail sales, and specifically authorize retail sales under these conditions. Briefly, the following are the major conditions that we feel should be contained in the applicable policy:

- (a) Any items of surplus personal property having appeal to and utility by an individual or end user could be sold by retail sale.
- (b) Sales prices for each item would be fixed on the basis of demand, local market area prices, and material condition of the item; but would in no case be less than 50 percent of acquisition cost for an item in fair value code A, 35 percent for those in code B, 20 percent for code C, and, for those in code D, no less than 10 percent of acquisition cost.
- (c) No individual item having an acquisition cost in excess of \$250 would be sold by retail sale.
- (d) The total quantity of any one item available for retail sale at any one time would not exceed \$5,000 original acquisition cost.
- (e) Total cash purchases by any one individual at any one sale would be limited to \$500.
- (f) Sales would be given general publicity and would be open to Government personnel as well as the public and all items sold on a first come-first served basis.
- (g) Disposal personnel and members of their immediate household, including agents thereof, of the activity conducting the sale and of the activity at which the property is located would be prohibited from buying at such sale.
- (h) Detailed cost would be maintained.

In order that this office may proceed on this basis, your concurrence would be appreciated, along with any comments or suggestions you may have on our proposal.

Sincerely yours,

W. W. WICKES,
Staff Director, Surplus Disposal Division,
Office of Requirements, Procurement, and Distribution.

MAY 27, 1957.

Mr. V. F. CAPUTO,
Office of the Assistant Secretary of Defense (Supply and Logistics),
Washington, D.C.

DEAR MR. CAPUTO: By letter of April 17, Mr. W. W. Wickes of your Office requested our guidance and comments regarding the use of retail sales by military activities.

It is our belief that retail selling should not become a major method of sales disposal. Since Mr. Wickes' letter states that no substantial overall increase in the use of the retail method is contemplated, we concur in the prescribing of the guides outlined, subject to these comments concerning the lettered conditions set forth in that letter.

Condition (b): It is recommended that the estimated fair market value be the overriding criterion in price setting. Use of a minimum price schedule based upon condition appears desirable, but a separate, although comparable schedule, not identified with the fair value code for transferring excess between agencies, would insure avoidance of confusion.

Condition (d): This condition could be subject to wide variances of interpretation. We understand that some activities now do continuing retail selling instead of setting up periodic offerings. To avoid retail selling of portions of bulk stocks of surplus property, it is recommended that the condition read as follows: "the total quantity of any one item available during any quarter of a given fiscal year would not exceed \$5,000 of acquisition cost."

Condition (h): For cost of sales data to be of value, the DOD instruction should list elements of cost to be maintained, including therein both direct and indirect overhead expenses involved.

Our concurrence as above applies to a 1-year test of the proposal, it being understood that GSA will be furnished with quarterly reports as to acquisition cost of surplus property sold, sales proceeds, personnel costs, both military and civilian, expenses such as rent, light, and heat, and all other applicable overhead items.

If complaints are received during the year's operation from merchants, trade associations, chambers of commerce, or other sources, it is expected that effective corrective measures will be taken immediately by the military services concerned, even to the point of suspending operations, where required. I will appreciate it if you will keep me currently informed as to such occurrences.

At the end of the year's operation, results will be appraised and decision reached as to revision of title 1, chapter IV, of GSA regulations. July 1, 1957, can be considered as the starting date for the test, unless your Office advises that another date would be preferable.

Sincerely yours,

C. D. BEAN, *Commissioner.*

ASSISTANT SECRETARY OF DEFENSE
Washington, D.C., December 27, 1957.

Memorandum for The Assistant Secretary of the Army (Logistics).

The Assistant Secretary of the Navy (Material).

The Assistant Secretary of the Air Force (Materiel).

Subject: Sale of surplus and foreign excess personal property by the retail method.

Reference: (a) DOD Instruction 4160.4 dated July 13, 1954, as amended; (b) DOD Instruction 4160.12 dated July 3, 1956.

On occasions, surplus and foreign excess personal property has been disposed of by the retail sales method. Its use generally has been limited to sales of small quantities of various types of property which would appeal to the individual or end user, and has resulted in an appreciable increase in the gross rate of recovery as related to the acquisition cost of such property. This is attributed partially to the fact that this method of sale affords individuals an opportunity to buy in desired quantities for personal use. In addition, it is the only type sale at which military and civilian personnel of the armed services are permitted to buy surplus and foreign excess property. Based on available cost data, it is believed that this method of sale also provides a maximum net return for this type property.

Retail selling is a form of negotiated disposal for which the authority is contained in sections 203(e) and 402 of the Federal Property and Administrative Services Act of 1949, as amended. While reference (a) authorizes negotiated

sales under certain conditions, it does not specifically provide for retail sellings as an authorized method of disposal. Therefore, items of surplus and foreign excess personal property adaptable to retail sales may be disposed of by this method. It should not be considered as a substitute for the regular auction, sealed bid, or spot bid sale, but as an additional tool in the merchandising kit. Retail sales will be subject to the following conditions and limitations:

1. Individual items of property to be sold by this method may not exceed \$250 acquisition cost and the total quantity of any one item (same stock number) which may be sold by any one installation during any quarter of a given fiscal year may not exceed \$5,000 acquisition cost. However, in foreign areas the military departments may authorize deviations from these monetary limitations when conditions warrant such action.

2. Selling prices will be established on the basis of comparable commercial prices for the same or similar items in the local market area, demand, material condition, and experience from competitive sales of such items. When in the best interest of the Government, established prices may be adjusted gradually but shall not be less than 50 percent of acquisition cost for unused items, 30 percent for used items not requiring repairs or reconditioning, and 10 percent for all others, except in the case of salvage items, scrap, and items such as kindling wood, scrap lumber, used packing boxes, or containers, etc.

3. Sales will be conducted for each on a first-come first-serve basis only, and the amount of surplus property which may be sold to any one buyer at any one time shall not exceed \$500 total selling price; this monetary limitation does not apply in the case of foreign excess.

4. Sales may be conducted either on a periodic or continuing basis. However, each individual activity should schedule its sales on a regular basis with respect to days and hours of operation.

5. Sales should be given general publicity and will be open to the general public and to all Government personnel, except those military and civilian personnel (including members of their immediate household and agents therefor) assigned to the disposal organization of the installation conducting the sale and to the disposal organization of the installation at which the property is located. As a minimum, general publicity should consist of posting on bulletin boards of local installations and civilian post offices, but may be extended to advertising in newspapers, trade journals, etc., whenever the situation warrants.

This office has agreed to advise the General Services Administration of any complaints regarding retail sales of surplus property, should such be received from merchants, trade associations, chambers of commerce, or other sources, and actions taken, including suspension of this method of sale at any particular activity when required. Therefore, it is requested that this office be advised by memorandum of any of these situations. Report exemption symbol DD-S&L (EX)72 has been assigned to this requirement.

In addition, the General Services Administration has requested certain information on the results of retail selling for analysis, in order to determine whether its regulations should be amended to permit all Federal agencies to utilize this method of disposal. In order that such information may be made available, it is requested that this office be furnished quarterly reports during calendar year 1953, showing (1) acquisition cost of property sold by retail; (2) gross proceeds; (3) number of activities which conducted retail sales; and (4) the following elements of cost: (a) personnel (both military and civilian), (b) other direct costs (advertising, supplies, transportation, etc.) and (c) indirect costs (space, heat, and lights). Such indirect costs will be limited to the items specified and may be estimated. This report may be made in the "Remarks" section of the report of excess and surplus or foreign excess personal property (DD Form 1143) which is submitted quarterly in accordance with reference (b).

Report control symbol DD-S&L(Fo)57133 has been assigned to the reporting requirements of the foregoing paragraph.

It is requested that this office be furnished two copies of the Department's implementation, upon issuance.

C. P. MILNE,
Deputy Assistant Secretary of Defense (Supply and Logistics).

JULY 13, 1961.

U.S. Government memorandum.

To: Assistant Commissioner, UP, Office of Personal Property.

From: Director, sales division.

Subject: Military retail sales.

With respect to Mr. Mullen's proposed itinerary (Flint, Mich.; Wright-Patterson; Davis-Monthan; Phoenix; Kelly AFB and Bolling), a Major Krause in Jack Owens' office tells me that retail sales are conducted at Davis-Monthan and at Kelly. The former is limited to aircraft spares for sale only to buyers of aircraft who may need a certain part in order to fly the plane off the base. The latter is a regular type operation, open to the general public as well as to DOD employees, each Wednesday from 3:15 to 5:30 and each Saturday from 8:15 to 12:15.

Through a telephone call to my contact in the office of the ASD (Comptroller), I was given the following information on retail sales (domestic, all services combined) taken from DOD consolidated statistical reports:

	Total	Commercial type property	Military type property	Salvage
Fiscal year 1960:				
Acquisition cost.....	\$18,119,000	\$8,379,000	\$1,209,000	\$8,531,000
Proceeds.....	\$3,044,000	\$1,593,000	\$199,000	\$1,252,000
Percent recovery.....	16.8	19.0	16.5	14.7
Fiscal year 1961 through Mar. 31, 1961:				
Acquisition cost.....	\$12,575,000	\$6,701,000	\$600,000	\$5,274,000
Proceeds.....	\$2,315,000	\$1,282,000	\$103,000	\$930,000
Percent recovery.....	18.4	19.1	17.2	17.6

The above is considerably below a 60-percent recovery rate. Navy conducts few, if any, retail sales, so bulk was by Army and Air Force. Through the above contact, I have made arrangements to receive all back issues of the DOD consolidated statistical reports on its excess, surplus, and foreign excess disposal program and future issues.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., July 13, 1961.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: This is in further reference to your letter of June 22 requesting supplemental information for the record concerning the recent hearings held by the Subcommittee on Military Procurement.

Attached are Air Force replies furnished in response to your five questions concerning the two-step formal advertising method of procurement. Both the Army and Navy have had so little experience with this recently instituted method of purchasing that they are unable to supply positive answers to your questions.

We trust that the above information will adequately answer your questions.

Sincerely yours,

GRAEME C. BANNERMAN,
Deputy Assistant Secretary of Defense (Procurement).

DEPARTMENT OF THE AIR FORCE,
OFFICE OF THE SECRETARY,
Washington, July 7, 1961.

Memorandum for the Assistant Secretary of Defense (Installations and Logistics).
(Attention: Deputy Assistant Secretary of Defense (Procurement).)
Subject: Two-step formal advertising.

1. This is in response to your memorandum of June 28, 1961, regarding the same subject as above.

2. Replies to the first five questions concerning two-step formal advertising encompassed in Senator Douglas' letter are as follows. The answers are keyed to the numbers applied to the questions.

(1) The two-step formal advertising method of procurement is considered to be advantageous to both the contractors and the Government.

(2) The advantages to the Government are—

(a) An ability to obtain competition in the procurement of complex technical equipment where otherwise we might have been forced into a sole source position.

(b) An ability to negotiate the technical aspects of an impending procurement and yet not preclude the use of formal advertising procedures in making the actual purchase.

(c) An ability to assure ourselves of the capability of the contractor to meet our technical requirements in advance of the contractor's being permitted to participate in the purely price competition for the business.

(d) An ability to use formal advertising techniques in situations which prior to the adoption of the technique would have been negotiated.

(3) The use of the two-step procedures has resulted in the introduction of new contractors as Air Force suppliers.

(4) In some instances contractors were new in the sense that they had not previously held Government contracts and in other instances contractors were new only with respect to furnishing new types of equipment.

(5) The Air Force has found that in a large number of cases the two-step procedure has resulted in contracts being awarded to contractors who have had previous contracts in other lines. In addition, it has been found that the procedure has encouraged participation by new contractors or those interested in diversification.

HUGH E. WITT,

Assistant Deputy for Procurement and Production.

(See p. 62.)

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., August 15, 1961.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Reference is made to your request of June 29, 1961, and to our letter of July 27, 1961, concerning questions for the record posed by Congressman Curtis following the recent hearings before your subcommittee.

Attached is a schedule which reflects dollar costs by appropriation title and by military service, for the costs of weather services during fiscal year 1961. In connection with these cost figures, it should be pointed out that the Army does not maintain an operating weather services. Almost all weather forecasting is performed by the Air Force for the Army. Army's forecasting is limited to specialized work in support of research and development. The Army does, however, make meteorological observations in support of artillery functions in the field.

It is hoped that the attached sufficiently satisfies the interest of your subcommittee in this matter. We are pleased to furnish this information.

Sincerely yours,

R. C. MOOT,

Director, Supply Management Policy.

(See p. 58.)

Expenditures for weather service, fiscal year 1961

[In millions]

	Army	Navy	Air Force	Total
Service performed:				
Military personnel.....	\$1.2	\$8.1	\$49.7	\$59.0
Operations and maintenance.....	.9	3.3	27.0	31.2
Research, development, test and evaluation.....	.5	1.5	7.2	9.2
Other procurement.....		5.2	4.6	9.8
Total.....	2.6	18.1	88.5	109.2
Other:				
Performed by Weather Bureau.....				
Research, development, test and evaluation.....	.8			.8
Corps of Engineers (civil functions).....	.6			.6
Operations and maintenance.....		17.0		17.0
Total.....	4.0	35.1	88.5	127.6

REDUCING IMPACT OF MILITARY PROCUREMENT

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., August 21, 1961.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Our letters to you dated July 27 and August 15, in response to your letter dated June 29, furnished replies to all of the questions submitted to you by Congressman Curtis with the exception of question 1. As we told you in our letter of July 27, the Department of the Navy was requested to obtain this information.

The Bureau of Supplies and Accounts chose the Naval Air Station, Patuxent River, as a representative activity, and that station has submitted the following information for the period December 1, 1960, through February 28, 1961:

Dollar category of purchases:	Total number of purchase transactions
0 to \$5.....	190
\$5 to \$10.....	215
\$10 to \$25.....	412
\$25 to \$50.....	419
\$50 to \$100.....	420
\$100 to \$500.....	465
\$500 to \$1,000.....	100
\$1,000 to \$2,500.....	57
Total.....	2,278

We trust that the foregoing completes satisfactorily our response to your letter of June 29, and that Congressman Curtis now has all the information he desires in connection with the questions he raised. If further data are needed by the subcommittee, please do not hesitate to let us know.

With kindest regards,
Sincerely,

R. C. MOOT,
Director, Supply Management Policy.

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATION AND LOGISTICS,
Washington, D.C., July 27, 1961.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Reference is made to your letter of June 29. Your letter transmitted 10 questions posed by Congressman Curtis as an outgrowth of your committee's recent hearings on the subject of supply management. Responses to questions numbered 3 through 10 are attached.

Question 1 requested a breakdown, by dollar increment, of purchase transactions at a using installation. The Department of the Navy has been requested to furnish this information following a detailed analysis of one of its facilities. We now expect this data to be available about August 15.

Question 2 requested information on each of the military services' costs for weather services, showing personnel, supplies, equipment, and other expenses for the current fiscal year. Because of the numerous accounts involved, this question has required extensive data collection which is still in process.

We are pleased to supply this material for the record as you have requested. The data now being developed will be forwarded as promptly as possible.

Sincerely yours,

PAUL H. RILEY,
Deputy Assistant Secretary of Defense (Supply and Services).

DEPARTMENT OF DEFENSE RESPONSES TO QUESTIONS POSED BY JOINT ECONOMIC COMMITTEE

Question 3. Has Project 60-11 pertaining to uniformity, forms, procedures, etc., been made applicable to the oversea theaters in order that the maximum standardization will be instituted in order to obtain effectiveness and efficiency?

Answer. Where appropriate, procedures and forms developed by the project are applicable worldwide. Examples are the priorities, requisitioning, and documentation systems. Provisions have also been incorporated for direct support of forces deployed overseas from the single manager's domestic distribution system. Other procedures, for example those governing provisioning, inventory management, and redistribution, are properly confined to the Single Manager Operating Agency, the distribution outlets, and the domestic customer.

Question 4. What, specifically, is planned in order to obtain overall inventory control of perishable or short-shelf items such as film, rubber goods, etc., to match against DOD-wide requirements and, if need be, Government-wide requirements?

Answer. The Department of Defense has improved inventory management by assigning groups of related supplies, which are common to the military services, to one of the military departments as a single manager for overall DOD requirements. The single manager is responsible for establishing and maintaining central control of inventories and for prescribing stockage objectives. One consideration in setting a stock level, in the case of perishable common items, is the element of deterioration. An example would be film and certain other photographic supplies which have been placed under the inventory management of the recently constituted Military General Supply Agency.

Single managers conduct a surveillance in-storage program designed to keep shelf deterioration at a minimum. Progress is being made in standardizing procedures in this area among the single managers. Results from such a program lead to improved procurement, distribution, and issue practices.

The four most recent single manager assignments which will include approximately 700,000 items are still in the initial stages of operational implementation. The overall inventory control of perishable or short shelf life items which is obtained by single agency management can be illustrated by the experience of the Medical and the Subsistence Single Manager Agencies.

The Medical Supply Agency has a system for rotating stocks to assure maximum utilization. This Agency likewise uses the Food and Drug Administration to test antibiotics for extension of the potency period. In addition, refrigeration and dehumidification facilities are used to extend the shelf life. Under this program only 3.3 percent of material valued at \$328 million has been subject to disposal since 1958. The annual savings in antibiotics procurement alone has averaged \$500,000 per year through extension of the potency period.

The Subsistence Supply Agency operates a surveillance program over annual pack items to assure maximum utilization and, for the fiscal year 1960, only 12 instances of deterioration were reported, all of which were within the value range of \$50 to \$100. This Agency has, under its refrigeration program for operational-type rations, extended the shelf life from 5 to 7 years.

Question 5. I have long been interested in the use of open and/or supply schedule-type contracts so that contractors and subcontractors may use them for the materials, components, parts, etc., that they require.

These contracts at least afford a yardstick. What is being done specifically to make this type of contract available if not mandatory for the use of contractors and subcontractors?

Answer. This Department is preparing a regulation, for inclusion in the Armed Services Procurement Regulation, which would make available to certain contractors supply sources of the General Services Administration, including their open-end and Federal supply schedule contracts. We are also considering giving contracting officers authority to contractually require mandatory use of such supply sources for specified items. We are trying to synchronize our regulation with proposed Government-wide procedures. Legal details and necessary coordination with GSA may require about 30 to 60 days. We hope to publish this material in our next regular revision of the Armed Services Procurement Regulation.

Question 6. Are there any service single managerships being considered in addition to those already established for military traffic management, sea transportation, and air transportation which were covered in the hearings of January 1960?

Answer. The Secretary of Defense has directed a comprehensive review of logistics and management policies and practices within the Department of Defense. This program is now being carried out on a special project basis. A project has been established and is now being actively pursued which will identify service functions susceptible to some form of integrated accomplishment. Each of several functions will be examined to determine what alternative forms of management are possible and what form of management is most appropriate. Single management is one of these alternatives. It can also be expected that Project 100, which is a review of alternatives in logistics organization for common items, will probably produce certain influences in this regard. We are now examining services in the fields of personnel and administration, finance, operational support and training, and logistics support.

Question 7. Has not the absence of central control involving these three transport single managers demonstrated the weakness of single managers, as such, in this field?

Answer. No. The operations of the transportation single managers and their operating agencies have actually improved the effectiveness and efficiency of military transportation and traffic management. The single managers operate under the policy direction of the Secretary of Defense. It can be said that they do, in fact, operate under central direction. There is effective and timely coordination between and among the operating agencies of the single managers. Further, close liaison is maintained with the single managers and their operating agencies by the Office of the Secretary of Defense to assure adherence to DOD policies, to determine where new policy or changes to established policy may be required, and improve wherever possible transportation operations and management.

Question 8. I note that the Secretary's testimony states that the Industrial Supply Agency will reach full operational status in April of 1963. The testimony presented before the committee's hearings in January 1960 was that this Agency would be in complete operation no later than July 1, 1961. Would this delay mean that unexpected problems or opposition have been encountered?

Answer. Testimony in January 1960 was based on preliminary estimates which considerably understated the magnitude of the task of implementing this assignment. Estimates of the item content of this assignment have more than doubled from 235,000 to 480,000 items. This increase is attributable to the aggressive efforts of the military departments to transfer items to the new Agency, and is indicative of confidence and cooperation rather than opposition to the single manager program. Implementation has been retarded somewhat by the necessity to convert available warehouse buildings to office space, but the major factor in extending the time-phased plan was the magnitude of the task of coding, classifying, and assuming supply management of the tremendous item range encompassed by FS group 53 (hardware). This Agency is already operational for FS groups 86 and 95 (paints and metals, respectively).

Question 9. I note too that the Secretary spoke to the consideration of electronics for integrated management and the fact that the report was presented to them about the 1st of March. Am I correct in my understanding that management of electronics will be decided by the Secretary of Defense in the final determination on Project 100?

Answer. This understanding is correct. Project 100 calls for the development of three alternative plans of organization and management under each of which provision is made for the integration of electronic supplies.

Question 10. Does not the Department of Defense now believe that there must be further coordination and integration of both the supply and service activities of the military services beyond the point of single manager assignments?

Answer. Whether single managers are strengthened and unified or supplanted by a different organizational arrangement depends on the outcome of Project 100.

STATEMENT FROM WALLACE N. FLINT, VICE PRESIDENT, NATIONAL ASSOCIATION OF FOOD CHAINS, WASHINGTON, D.C.

Gentlemen, I appreciate the opportunity to file this statement presenting information relative to the establishment and operation of commissary stores by the Department of Defense, a subject currently under consideration by this committee.

Under present law (Public Law 601 of the 86th Cong.), a commissary may not be established and operated unless the Secretary of Defense has certified,

"that items normally procured from commissary stores are not otherwise available at a reasonable distance and a reasonable price in satisfactory quality in quantity to the military and civilian employees of the Department of Defense."

In view of the information adduced by this committee I respectfully submit that the manner in which this statutory requirement has been implemented by the Defense Department violates both the policy and the letter of the law.

Since attention at the hearings was focused on the standards for the operation of commissaries in Washington, D.C., I will place particular emphasis on price conditions in that area.

First, I do not believe nor have I seen or heard a scintilla of evidence which would lead a fairminded person to believe that prices of food and grocery items in the Washington area could by any stretch of the imagination be designated as "unreasonable." Material has been assembled and is included in this statement which will, I believe, demonstrate to the satisfaction of this committee that food and grocery prices in the Washington, D.C., area cannot accurately be described as unreasonable.

It has been and continues to be extremely difficult for businessmen engaged in taxpaying enterprises to object successfully to the establishment of military commissary facilities because it has been the policy of the military to reach their decisions in secret and to keep the bases of their decisions from becoming available to legitimately interested persons in the business community. The information elicited by this committee has lifted the veil of this secrecy and makes it possible for the submittal to you of information which will demonstrate the fallacious bases upon which determination of need for commissary stores has been made.

The reasoning used to reach a justification of commissaries under the statutory standards is so strained as to result in an untenable position. The statements by Colonel Maxwell before this committee include the statement that "we appealed to the national industry advisory groups to determine the appropriate markup established by the retail supermarkets and chains." I do not know the national industry advisory groups to which Colonel Maxwell refers, but I can state that the National Association of Food Chains was not so consulted and would not and could not under any circumstances determine the "appropriate" markup for merchandise handled by members of their group. Since Colonel Maxwell later uses the term "average" rather than "appropriate" it is possible to assume that in each case he meant to use the term "average." The figure which Colonel Maxwell says was obtained was "approximately 20 percent." Data on "Operating Results of Food Chains in 1959" (latest year for which this report has been completed) as prepared by the Harvard Bureau of Business Research show that the average gross margin for 50 food chains was 21.18 percent of sales.

This, let me emphasize, is an average and to state that any figure above the average is "unreasonable" is a completely unrealistic position to take. It is the same as demanding that everybody be better than the average which is a contradiction in terms.

Further, I think it is important for the committee to know that food chain payroll (including supplementary benefits) amounted to 10.37 percent of sales on the average in 1959. A substantial portion of similar expense apparently is not included in figuring commissary operating costs, but rather is paid out of general tax funds as a subsidy to a limited group of military personnel. Similarly other expenses of food chains and of independent food distributors, part or all of which are not considered as expense by the commissaries, include: real estate costs which for chains are 1.97 percent and taxes (other than those on real estate and income) which are 0.58 percent. The total of these expenses is 12.92 percent or more than half of the gross margin of food chains. It is also possible that some part of certain other expenses such as supplies, insurance, fixture, and equipment costs may also be met, insofar as commissaries are concerned, by charges to the general tax revenues rather than charges to the commissary operation itself. Indeed this is obvious in view of Colonel Maxwell's statement that the commissaries sell at invoice cost plus a surcharge of only 3 percent.

Colonel Maxwell's statement that sale prices of items at Safeway and A. & P. Stores were 32 percent greater than in the Cameron Station commissary is surprising. An item which costs a food chain 79 cents would, on the average, be sold for \$1 based on the figures from the Harvard report. Colonel Maxwell states that there is a surcharge of 3 percent added to commissary invoice costs. This 3-percent surcharge on his 79-cent cost of merchandise would bring a total sale price at the commissary of 81.37 cents or a figure 18.63 cents less than in the unsubsidized stores. This means that the commissary is selling on the average at a price 18.63 percent lower than in taxpaying stores. These data are based on national averages.

Comparing specific prices in the nearby stores with the national average is somewhat difficult for technical reasons, but a study of prices made in the Safeway store near the Cameron Station commissary shows the following:

Items and departments	Percent of consumer dollar spent in the department	Median gross margin computed for Safeway store nearest Cameron Station
	<i>Percent</i>	<i>Percent</i>
69 grocery items.....	66	14.54
5 meat items.....	25	22.65
27 produce items.....	9	36.75
Grocery-meat-produce.....	100	¹ 18.57

¹ Weighted average of 3 departments.

Now even on the basis of Colonel Maxwell's unreasonable determination of what is an unreasonable margin this would not justify a finding indicating the necessity of a commissary.

Thus the comment of Colonel Maxwell that food chain prices were 32 percent higher than commissary prices is not borne out by the facts. Furthermore, this is no basis for any determination of justification since it will be clear to the committee that if the surcharge at the commissary level were to be 1 percent instead of 3 percent, comparative prices could be made to appear even more "out of line." This could be accomplished under Colonel Maxwell's formula merely by charging more to the taxpayer and less to the purchaser in the commissary.

It also should be pointed out that the Department of Defense is making a decision on an entirely different basis than even its own stated basis:

First: Colonel Maxwell says, "The basis for that certification was that prices were not reasonable."

Then in response to Senator Douglas' question: "What you are saying is that the prices at Safeway and other chainstores throughout the area are unreasonable?" He says, "I would not make that statement, sir." And again, "For me to sit here and indicate to you that the highly competitive food industry does not provide reasonable prices to the civilians in their areas, that would be incorrect."

Now prices are either "reasonable" or "not reasonable" and the Secretary of Defense must have found them "not reasonable" (since this is the factor Colonel Maxwell relies on) in order to justify the commissary at Cameron Station. Yet Colonel Maxwell was forced to admit that he "would not make that statement" of unreasonableness.

Second: Colonel Maxwell establishes the totally untenable position that prices which exceed the "average markup" are unreasonable.

Finally: Evidence was not submitted to show that markup was above the average. Instead of determining the markup in the stores in the area to compare with any markup standard, reasonable or unreasonable, established by the Department of Defense, the colonel ignores this standard and establishes a comparison of prices in commissaries with those in nearby taxpaying stores. This not only violates his own standards but would, if followed, make it "reasonable" to establish a commissary just about anywhere by merely manipulating the commissary "surcharge".

Examples

	Cost	Sale price at taxpaying store	Gross margin	Sale price at commissary	Relation of margin of in taxpaying store to commissary sale price
			<i>Percent</i>		<i>Percent</i>
(a) Commissary surcharge 3 percent.....	\$1	\$1.23	18.7	\$1.03	19.42
(b) Commissary surcharge 2 percent.....	1	1.23	18.7	1.02	20.59
(c) No commissary surcharge.....	1	1.23	18.7	1.00	23.00

In addition it should be noted that this method of comparison can be further distorted by the buying practices of commissaries which enjoy special privileges such as that of being able to negotiate purchases without being subject to the antitrust laws, notably the Robinson-Patman Act.

The law requires that the items normally procured from commissary stores be not otherwise available at a * * * reasonable price in satisfactory quality and quantity. I submit to this committee that prices cannot justifiably be declared to be "unreasonable" merely because they are above the average for the country as a whole for this would automatically mark 50 percent of the prices in the country as unreasonable which is a wholly fallacious interpretation of the word "unreasonable." Even more assuredly it is completely erroneous to state that prices are "unreasonable" when they involve gross margins below the national average as is demonstrated to be the case in this compilation based on Safeway prices.

It is respectfully submitted that it is expecting too much of human nature to ask that a man or group of men be litigants, investigators, witnesses, judge and jury and come out with an unprejudiced answer in a matter where their own self-interest is involved to such an extent as it is in the establishment of commissary facilities. This is especially true when it is noted that the present law includes certain ambiguities which should be clarified. The law requires that the Secretary of Defense shall "certify" as to conditions of distance, price, quality, and quantity. It does not state to whom such certification shall be made. Further, there is no definition or even any guides as to what "reasonableness" means as to these elements.

It is therefore recommended that the law be amended in two important respects:

- (a) To provide more definite criteria for the determination of "reasonableness," and,
- (b) To remove from the Department of Defense the decision as to whether or not the facts justify the opening of a commissary, the opening of a commissary branch or annex, or the continuation of commissaries which are now in existence. It is suggested that such decision be placed in the hands of some disinterested agency and that the decision and the basis and data used in reaching the decision be made public.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., June 9, 1961.

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

DEAR MR. CHAIRMAN: This is in response to your letter of June 1, 1961, regarding the hearings your subcommittee plans to hold on June 12 on the progress made by the Department of Defense in reducing the impact of military procurement on the economy.

In connection with the hearings you requested the General Services Administration to furnish your subcommittee for the record the following information:

- (1) A report as to the extent to which common supply activities for hand-tools, paint, etc., have been turned over to the General Services Administration by the Department of Defense and what actions are pending.
- (2) To what extent has the surplus property program been revested in the General Services Administration? What are future plans on this matter?
- (3) What changes, if any, have taken place in the utilities field including communications and transportation activities?
- (4) Has the Department of Defense taken exception to any activities of the General Services Administration pursuant to the proviso of section 201(a) of your basic act? (List.)
- (5) What action, if any, is pending toward reinstating a Presidential directive to preclude the Defense Department's exceptions to actions of the Administrator under section 201(a) of the basic act?

Accordingly, there is transmitted herewith a statement covering the above-listed items.

Also, in accordance with your letter I have requested the following members of my staff to be available at the hearings on June 12 in case you or your subcommittee desire additional information from the General Services Administration:

Mr. James A. Garvey, Assistant Commissioner, Office of Utilization and Sales, Federal Supply Service;

Mr. Loren L. Leeper, Assistant Commissioner, Office of Supply Management, Federal Supply Service; and
 Mr. Frederick W. Denniston, Assistant Commissioner, Office of Public Utilities and Representation, Transportation and Public Utilities Service.
 Sincerely yours,

JOHN L. MOORE, *Administrator.*
 (See p. 60.)

STATEMENT OF THE GENERAL SERVICES ADMINISTRATION

1. *A report as to the extent to which common supply activities for handtools, paint, etc., have been turned over to the General Services Administration by the Department of Defense and what actions are pending*

The four new military single managers for general, industrial, construction, and automotive supplies have been assigned approximately 1,160,000 items which they are currently reviewing. It is expected that GSA will be offered initially, approximately 178,500 items not requiring military management. In addition, the individual military inventory control points not currently involved in single manager operations are expected to offer an additional 100,000 items.

The total of 278,000 items to be offered is expected to be decreased to 161,000 items through joint efforts by DOD and GSA to reduce the number of items carried in both systems for the same purpose and to increase the number common to both systems. This reduction will obviously produce substantial economies to the Government.

Of the 161,000 remaining after so-called catalog cleanup, experience indicates that the most economical method of managing many of these items will be through local purchase by each using activity as needs arise. It is GSA's estimate that between 30,000 and 40,000 of these items can be more economically managed through GSA support programs and these items will be added to GSA's system on a progressive basis.

The current status of our negotiations with DOD with respect to paint and handtools is discussed below.

The Military Industrial Supply Agency has some 3,000 items of paints, brushes, sealers, and adhesives under its control. Current status regarding offers to GSA in this commodity area is as follows: MISA has made offers to GSA totaling approximately 800 items. Of these, 215 have been accepted by GSA for support to the military. It has been determined that due to item characteristics and potential demand, the balance of these items can be supplied most efficiently through local purchase procedures, and MISA has thus decentralized the remainder. GSA anticipates that approximately 350 additional items currently under review by MISA will be offered in the near future. There are also approximately 800 items currently under MISA management which have been coded as being peculiar to their requirements. It is believed, however, that most of these 800 items are commonly available from commercial sources and not necessarily unique to the military and we are negotiating with DOD on transfer of such items to GSA.

The Military General Supply Agency has approximately 50,000 hand tools currently under review most of which are of a specialized nature. GSA now carries approximately 2,400 items primarily for support to the Air Force. Approximately 1,250 of these 2,400 items involve mobilization reserves for Army, Navy, or both. Under agreements recently consummated, GSA will continue to supply these 1,250 hand tools to the Air Force as heretofore for the time being. The validity of designation of mobilization reserve items by Army and Navy will be reviewed by MGSA starting shortly after July 1 to determine which of these items warrant the maintenance of reserve stocks under recently revised DOD criteria. In the interim period, GSA will procure all requirements for these 1,250 items. There are approximately 9,000 additional hand tools which have been offered to GSA and which are now currently under review for selection of those which can be economically supplied through GSA's programs. Of the first 1,100 reviewed, approximately 10 percent were selected for addition to GSA's system. It thus appears that most of the items offered do not warrant central management in any system and will be decentralized for local purchase.

The Committee will also be interested in knowing that under agreements recently consummated with the Department of the Army and the Department of the Navy, GSA will procure household-and-quarters furniture requirements for these two services. This makes GSA the sole buyer of this commodity since it has been supplying the Air Force, along with the civilian agencies, for some years.

2. To what extent has the surplus property program been revested in the General Services Administration? What are future plans on this matter?

GSA control over unneeded Federal personal property varies according to the status of the property and the objectives sought to be attained. The handling of such property is covered by sections 202 and 203 of the Federal Property and Administrative Services Act of 1949.

Section 202 of this act authorizes the Administrator of General Services to prescribe policies and methods to promote maximum utilization of excess property by executive agencies and provide for the transfer of excess property between agencies.

Each executive agency is required by section 202 to identify its excess, report it promptly to the Administrator, perform care and handling of excess property, transfer excess to other agencies in accordance with authority delegated, and regulations prescribed by the Administrator, and to obtain excess from other agencies.

GSA performs its entire responsibility for utilization of excess without having formally delegated its legal authority to other agencies. One area requiring closer control, however, involves the utilization of excess Department of Defense contractor inventory. GSA representatives have been working with the Department regarding this type of excess and will promulgate shortly Government-wide procedures which will assure its full utilization by the Federal government.

Section 203 of the act assigns to the Administrator of General Services responsibility for the supervision and direction of the disposition of surplus property of all executive agencies. The care and handling of surplus and its disposal may be performed by GSA or by the holding agency as designated by the Administrator or by any other agency consenting thereto. Specific provision of section 203 relates to the donation of surplus property to designated eligible organizations as one means of disposal. The Department of Health, Education, and Welfare and, in a more limited area, the Department of Defense, are assigned collaborative responsibilities in the donation method of surplus disposal.

By title I, chapter IV, the Administrator has delegated to all holding agencies the authority to dispose of their surplus in accordance with GSA regulation. In making this delegation, the Administrator reserved the right to make exceptions to this delegation by specific order.

The donation program is administered by GSA specifically as the act provides. All donation transactions are approved by the Administrator of General Services or those GSA personnel to whom authority to do so has been delegated. As indicated, the sale of surplus personal property to the public is being carried out by the holding agencies. In reviewing sales operations during fiscal 1960, it was apparent that this created a great number of selling points from which relatively small volumes of property were being sold and that this was both costly and difficult to administer.

To remedy this situation, the Department of Defense, which sells approximately 98 percent of Government-wide surplus personal property, has taken effective steps to overcome this shortcoming. During this past year DOD has placed control of its surplus personal property sales in 35 consolidated sales offices, as compared with more than 300 sales installations in the United States which had previously been in more or less independent operation. Furthermore, a single bidders' list control center has been established in San Antonio, Tex., to be operated on an interservice basis.

During this same period GSA has developed a program for a similar consolidation of the sales of civilian agencies. In the past, GSA has sold only specific holdings of civilian agencies upon their request. However, under the new integrated civil agency personal property sales plan, 10 agencies were asked to enter into a mutual agreement with GSA whereby GSA would sell all personal property belonging to those agencies. Eight of the ten agencies have already executed copies of the mutually developed agreements, and it is anticipated that the other two agencies will sign similar agreements within the next several weeks. These 10 agencies, plus GSA, represent about 70 percent of the sales volume of the civil agencies.

Present plans are to continue the sale of personal property for these agencies during fiscal year 1962. Then, in the following year, GSA plans to assume responsibility for the sale of personal property for the remaining civilian agencies. The intent is to improve selling practices by sharply decreasing the number of selling points and the number of individual offerings; to apply technical experience to the offerings made; and to improve the opportunity for the public to participate.

Another area in which GSA expects to exercise tighter control in the future is in the field of negotiated sales of surplus personal property. A change to GSA regulations, title 1, is being prepared and it will require prior approval by GSA of any negotiated sale of personal property proposed to be made by any executive agency.

3. *What changes, if any, have taken place in the utilities field including communications and transportation activities?*

The General Services Administration represents the Department of Defense before State and Federal regulatory bodies, as one of all Federal executive agencies, in utility and communication cases, and represents the Air Force in SAGE cases before the regulatory agencies under 50 United States Code 591. The Department of Defense represents itself in transportation matters, and the pleadings of GSA in such cases generally excepts DOD as a party represented thereby.

No significant changes have taken place in the performance of the abovementioned services since the prior hearings held by the Subcommittee on Defense Procurement of the Joint Economic Committee.

4. *Has the Department of Defense taken exception to any activities of the General Services Administration pursuant to the proviso of section 201(a) of your basic act? (List.)*

The Department of Defense exempted its transportation and traffic management from section 201(a) of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 481) under the permissive provision of that section. The order of October 2, 1954, is published in 19 F.R. 6611. The prior history is shown in the committee's report of October 1960, appendix 8, page 104. This exception presently is in effect.

In the communications and public utilities field, GSA and DOD have areas of understanding agreements under which they presently operate and which are published in 15 F.R. 8226-8227 and 22 F.R. 871. (Copies of which are attached.)

5. *What action, if any, is pending toward reinstating a Presidential directive to preclude the Defense Department's exceptions to actions of the Administrator under section 201(a) of the basic act?*

No action toward reinstating a Presidential directive to preclude the Defense Department's exception to actions of the Administrator under section 201(a) is contemplated to our knowledge.

GSA has experienced excellent cooperation from the Assistant Secretary of Defense, Installations and Logistics, and from the Bureau of the Budget in spelling out the role of GSA in expanded support of military activities. Since the last hearings of the committee, GSA and DOD have reached a series of agreements which have established a firm foundation for the role of GSA. These include the following:

(a) There will be no withdrawal of items from GSA's supply system without approval of the Assistant Secretary of Defense (I. & L.).

(b) GSA will be offered all common-use items not requiring military management.

(c) GSA will determine which of the items offered can more economically be handled through GSA's supply programs, and which are best obtained through local purchase by the requiring military activity.

(d) GSA will be shown as a primary source of supply in military catalogs for items to be supplied by GSA.

(e) DOD will transfer inventories above authorized retention levels to GSA on items for which GSA will assume support. Tentative procedures for such transfer, without reimbursement, have already been developed and discussed with the Bureau of the Budget.

(f) GSA will participate as a coequal in the Department of Defense accelerated item reduction program to eliminate duplicative items and to reduce the total number of different items carried in both systems.

GSA, in turn, has agreed to modify its programs to permit the development of a more closely integrated GSA/DOD supply system. GSA has agreed to use the uniform issue priority system recently established by the Department of Defense in processing military requisitions. It has also agreed to install the uniform requisitioning system now under final development in the Department of Defense. These changes will insure that military users can order as conveniently from GSA as from any other military source. GSA has also agreed to establish issue facilities at military locations where major consumers are concentrated, to the extent feasible and economical.

U.S. DEPARTMENT OF COMMERCE,
BUSINESS AND DEFENSE SERVICES ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., June 19, 1961.

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

DEAR MR. CHAIRMAN: As requested in recent discussions with your staff and in your letter of June 14, 1961, addressed to the Secretary of Commerce, we are pleased to report herein on the surplus property activities of the Business and Defense Services Administration and on related developments during the period January 1, 1960, through June 15, 1961. We have under discussion within the Department your request for the Department's views on its future role in the disposal of certain classes of surplus property. A separate letter on this matter will be sent to you shortly by the Secretary.

In letters to you dated December 9, 1959 and January 27, 1960, we described the role of the Department of Commerce relative to various Government surplus disposal programs. We note that these letters and attachments thereto were published in their entirety at pages 69 to 74 and 516 to 526 of the hearings before the Subcommittee on Defense Procurement, January 28, 29 and 30, 1960.

Since there has been no material change in our responsibilities or functions as described therein, this presentation will update the factual material in the 1959-60 letters, discuss several recent significant developments affecting disposals, and describe the surplus disposal problems pertaining to several individual products.

NATIONAL STOCKPILE DISPOSALS

During the period January 1960 through June 15, 1961, the Office of Civil and Defense Mobilization authorized disposals from the stockpile of various quantities of the products listed below:

Celestite	Nickel, stockpile grade
Chrome ore, subspecification	Nickel, nonspecification grade
Cobalt, nonspecification	Platinum scrap
Columbium-bearing tin slag	Quartz crystal
Copper, nonspecification	Quinine
Feathers and down	Rubber
Graphite, natural, nonspecification	Silk waste and noils
Hyosine	Tin
Kyanite-mullite, nonspecification	Tungsten ores and concentrates
Magnesium residue	Vanadium pentoxide
Manganese ore, low grade	Zinc
Mica, muscovite block	
Stained B and lower	

Disposal plans for these commodities are published in the Federal Register 6 months before activation, following interagency clearance. Business and Defense Services Administration recommendations, based on its industry contacts, played an important part in the development of acceptable disposal plans.

ATOMIC ENERGY COMMISSION (AEC)

Under our cooperative agreement with the AEC market impact studies were made for two products since January 1 of 1960; lithium and vanadium pentoxide.

Lithium

In early 1961 an analysis of the lithium industry was undertaken to determine the probable impact from the contemplated sale of 2,500,000 pounds of surplus lithium hydroxide by the AEC and 1,750,000 pounds of lithium compounds by the Department of the Air Force, upon a commercial market of about 7,500,000 pounds per year.

The findings showed that the lithium industry was operating on a marginal basis; prices were lower than in several previous years; no significant growth of the total market had occurred in the recent past; one of the plants was in an area of substantial labor surplus; further deterioration of this industry would have national defense implications; and finally the immediate disposal of any government surplus would probably undermine current efforts of the industry to develop new lithium markets.

In April 1961, we recommended to both the Air Force and the AEC that the surplus lithium be withheld from sale, noting that we proposed to reevaluate the situation in the spring of 1962, when a calendar year report for 1961 could be obtained. This recommendation has tentatively been accepted by both agencies.

Vanadium pentoxide (V_2O_5)

Since our recommendation of April 7, 1959, to postpone the sale of V_2O_5 pending an improvement in the market, and the acceptance of this recommendation by the AEC, we have periodically reviewed the market condition and advised the AEC of our findings. Thus on March 13, 1960, it was suggested that AEC dispose of 8 million pounds of V_2O_5 over a 2-year period. The first lot of 1,140,000 pounds was sold on May 23, 1960. A scheduled August 15, 1960, sale of 1,581,000 pounds was postponed until January 25, 1961, following a BDSA report of a soft market condition reflecting the low operating rate in the steel industry. A sale proposed for April 15, 1961, was postponed by AEC following receipt of a BDSA report in late February which showed that commercial inventories had increased due to the combined effect of a weak export market and slower recovery of the U.S. steel industry than had been expected.

DEPARTMENT OF DEFENSE (DOD) DOMESTIC SURPLUS

As indicated in material submitted for the 1960 hearings the bulk of our market impact evaluation work has to do with military surplus. The presentation that follows discusses machine tools separately since we deal with these at the "excess" stage, i.e., while being offered for Government use outside the holding activity. Market impact referrals for other commodities takes place after the property has been screened for possible acquisition by all military and civilian agencies outside the holding activity and is determined to be surplus to the needs of the entire Government.

Machine tools

During the period July 1, 1959, to June 15, 1961, the Metalworking Equipment Division of BDSA formed 12 industry inspection teams to make "on site" inspections and evaluations of machine tools and related production equipment declared excess at Air Force and Navy storage sites and ordnance plants. In addition, the Division reviewed hundreds of listings of excess metalworking equipment items and in a number of instances, made informal recommendations to the Department of Defense as to the impact upon industry.

During the fiscal year ending June 30, 1960, approximately 21,960 machine tools were declared excess. Of this number, about 5,400 tools were claimed by military departments and the National Industrial Equipment Reserve. Schools selected some 6,000 and other agencies an estimated 1,800 items under statutory programs; approximately 8,760 were disposed of as surplus.

In the period July 1, 1960, to June 15, 1961, some 19,800 tools were declared excess of which about 4,700 were claimed by military departments and national industrial equipment reserve. Schools and other agencies selected an estimated 5,700 and 1,500 items, respectively. Approximately 7,900 tools were disposed of as surplus.

Other items of military surplus

During the period January 1, 1960, to June 15, 1961, we made 111 separate market impact recommendations covering over 50 different kinds of products. We have summarized these actions on the attached sheets. For each market impact recommendation requested by the Department of Defense there is shown the name of the product, quantity, and acquisition cost to the military department. (The acquisition cost should not be used as a gage of value in today's market since some of the items may be nearly 30 years old. Current acquisition cost of comparable items would in many cases be double the amounts listed.) The next three columns show the date of BDSA's report to the requesting agency, our evaluation of the degree of impact—none, slight, moderate or severe—and our disposal recommendation. The last column shows the action taken by the disposing agency if it is known. In the interest of economy we do not as a rule ask for a report of action taken when the market impact is categorized as "slight" or "none."

Construction machinery and equipment

Because of your expressed interest in disposals of items of construction equipment, we are listing below by class of machine the number offered for sale in invitations to bid issued by military agencies during the year 1960, the first 6 months of 1961, and the total for the 18-month period.

Of all the types of construction machinery and equipment listed, the disposal of surplus military cranes and shovels has caused the most serious adverse impact on commercial markets in the past year. This is particularly true of machines in the 3/4- and 1½-yard sizes. It will be noted from the table that offerings of cranes and shovels have increased from a 6-month rate of 255 in 1960 to 291 in less than 6 months of 1961. While the sale of some of these has been postponed at BDSA request, a continuation of high level disposals for the short run seems probable since 250 crane-shovels are listed as excess in the interagency clearance catalogs of May and June 1961.

Number of construction equipment items advertised for sale as surplus by military agencies, January 1960 to June 1961

Kind of machine	18-month total	Year 1960	First 6 months, 1961
Crane-shovel.....	802	511	291
Ditcher-trencher.....	51	21	30
Roller-compactoer.....	139	72	67
Earthmoving scraper.....	310	215	95
Motor grader.....	221	164	57
Pickup sweeper.....	34	23	11
Earthboring auger.....	65	50	15
Portable crusher.....	47	30	17
Bituminous distributor.....	74	35	39
Bituminous finisher.....	28	11	17
Tractors, miscellaneous types.....	1,091	872	219
Miscellaneous attachments (\$1,000 or more each).....	3,681	2,964	717

There are 32 producers of power cranes and shovels in the United States with a total productive capacity of about 18,000 machines annually. From the record shipment of 14,720 machines in 1952 there has been a persistent decline in output to an estimated 4,000 machines shipped in 1960.

While the overall impact of surplus disposals affects the total U.S. market, the disruption is most serious when a large number of machines is sold in a given geographical area in a relatively short period of time.

Smokeless powder and TNT

The recent development of a "slurry explosive" has created a serious problem in the explosives industry arising from military disposals of smokeless powder. Surplus of smokeless powder is generated in part by rotation of reserve stocks and, secondly, by breakdown of obsolete and surplus ammunition. Until about 9 months ago much surplus smokeless powder was burned because test sales showed that it could not be sold for enough money to cover costs of conducting the sale. The technological development noted above now permits the use of smokeless powder in substitution for TNT in slurries on a pound-for-pound basis in blasting work.

Information at hand indicates that the generation of surplus smokeless powder from military sources will approximate 60 million pounds per year for the foreseeable future. The surplus inventory now at military bases is about 30 million pounds. In July of 1960, 95 million pounds was sold by the U.S. Naval Weapons Plant, Washington, D.C., and about half of this is still stored at various ordnance depots pending delivery to the successful bidders. Deadline removal dates are this fall.

In addition to disposals of smokeless powder, military agencies are selling surplus TNT. Acting on previous recommendations of this Department, these quantities are being limited to 17 million pounds of TNT each year.

As contrasted with the above generations, inventories, and sales, the total U.S. commercial consumption of high explosives in 1959 was about 100 million pounds.

Discussions are continuing between Department of Defense and BDSA staffs in an effort to find the optimum solution to this problem.

Containers

In early May the Department of Defense requested our advice on the disposal of 16,000 steel tanks of 1-ton liquid capacity. Total acquisition cost was \$4,416,000.

Our investigation disclosed that there is only one company now making this type of container. Its annual sales, which are made up predominately of this item,

approximate \$1 million. Largely because of other surplus disposals of this same kind of tank, this company is now operating at about 30 percent of capacity.

Subsequent to the initial request the Department of Defense advised that some of these tanks may be contaminated. Pending examination and determination of the number that can safely be offered for sale, our disposal recommendation has been held in abeyance.

Tire chains

There has been a large volume of tire chains sold as surplus in the past few years. Although complete records are not available, two large disposals, one completed and one pending, are noteworthy. In August 1960, Benecia Arsenal, Calif., completed 12 monthly sales totaling 161,000 pairs, weighing 8,000 tons, and having an acquisition cost of \$2.2 million. The pending sale is of nearly 70,000 pairs located at Columbus, Ohio, General Depot, weighing 3,000 tons and costing \$.7 million.

This industry is particularly sensitive to impact of surplus sales because the product does not become obsolete, rusting does not materially reduce its usefulness, sizes can be changed to make them more marketable, and sales are highly seasonable.

The tire chain industry is relatively small. The 1958 Census of Manufactures shows a production of about 29,000 tons valued at \$20 million. Seventy percent of the output is from the York, Pa. region which is now classified as an area of substantial labor surplus.

Because of the slight difference in return to the Government from the sale as scrap or as chains, we have recommended that the lot at Columbus be sold as scrap. In the meantime we are discussing with the military agency the retention of some of these for future use and the reworking of others to required sizes in lieu of new procurement.

Industrial fasteners

Industrial fasteners are now being sold as surplus to the extent of about \$1 million per month at acquisition cost. This is a severe impact upon the capscREW segment of the fastener industry. Capscrews represent a large part of the DOD surplus of fastener items. For example, a sale at Marietta, Pa., Air Force Station in 1960 listed 2,618,000 capscrews (63 tons). A sale of surplus now impending at the Marine Corps Supply Center at Barstow, Calif., includes 7,242,500 capscrews weighing 297 tons.

Moreover, there is involved in the resale of these capscrews, and other types of aircraft fasteners, a possible element of danger of failure in use if they have been reworked in any fashion. It is not unusual for such reworking to be done to effect changes in size, etc., to meet new purchase requirements. Many surplus capscrews are purchased by aircraft supply houses, presumably for resale to aircraft manufacturers. Two reports of failure of such reworked capscrews have been received by the Department of Commerce.

This industry is also suffering from the impact of imports roughly comparable to the impact from sales of surplus and, to our knowledge, is in a depressed condition. Over half of this industry is located in labor surplus areas as designated by the Department of Labor in January 1961.

The difference in recovery value between disposal as "scrap" and otherwise is not large and the Department of Commerce has recommended that these items be sold as "scrap" under an enforceable warranty.

CONSOLIDATED SURPLUS SALES OFFICES

During the last few months the military departments have completed the program started a year or so ago to reduce the number of sales offices from 315 to 34. This action will no doubt effect economies in sales administration, improve merchandising practice, attract more purchasers, and increase the return to the Government. Nevertheless, it may also increase the impact of surplus sales on commercial markets, since a basic part of the program is to have basically similar property only offered in each bid invitation. Of necessity, the amounts offered will be larger. The short run impact will be greater than heretofore for those products having high-weight-to-value ratio, since high shipping costs would tend to make them remain in the area in which they are sold. For example, on June 5 and 6 a widely advertised "West Coast Closed Circuit TV Auction" was held. Sale sites were Seattle, San Francisco, and Los Angeles, but property located at 18 bases on the west coast was included. A total of 51 power crane-shovels located at 4 different sites was offered for sale. Normally, the disposal of these

would undoubtedly have been spread over a number of months since each of the four bases would have conducted its own sales. Our evaluation of the probable market impact of this large offering resulted in 26 crane-shovels being withheld. In order to prevent emergency situations such as this from arising, discussions have already been started with Department of Defense officials to amend our working agreement. We are watching the consolidated sales closely and as developments indicate will make appropriate recommendations to DOD in the interest of minimizing both one-time and cumulative adverse market impact.

CLOSING OF MILITARY BASES

The Department of Defense on March 30, 1961, announced plans to discontinue or reduce operations at 73 bases, of which 52 are located in continental United States. It was stated that this was the first such announcement flowing from a systematic evaluation of all 6,700 separately identifiable defense installations and activities.

Recent experience in the closing of Auburn Depot Activity, Auburn, Wash.; Mallory Air Force Station, Memphis, Tenn.; Marion Engineer Depot, Marion, Ohio; and the Naval Ordnance Plant, South Charleston, W. V., shows that closings are accompanied by increases in surplus offerings. Both the size of the individual lot and repetitive offerings of the same item in different sales increased significantly. Increases were particularly noteworthy in the terminal 6 months. The additional disposals flowing from simultaneous phasing out of many installations could add materially to both the "spot" impact and the cumulative impact noted heretofore.

We have discussed this new problem with DOD officials and are now working with them in the development of longer range disposal plans aimed at minimizing adverse market impact in such instances while at the same time permitting the timely execution of the administration's policy of liquidation of unneeded facilities.

We trust this report contains the information you desire. We shall, of course, be pleased to supplement it as you wish.

Sincerely yours,

THOMAS E. DRUMM, Jr.,
Acting Administrator.

(See p. 61.)

Surplus property market impact actions, January 1960 to June 1961

Product	Quantity	Cost to Government	BDSA market impact evaluation			Action taken (if known)
			Date	Degree of impact	Recommendation	
A						
Aircraft C-47.....	100.....	(1)	Mar. 17, 1961	Slight.....	Sell with a minimum upset price and no restriction on rehabilitation.	Pending.
Aircraft, C-119.....	1.....	\$480,884	May 6, 1960	do.....	Sell.....	
Aircraft engine R-2800-31.....	60.....	(1)	May 5, 1961	None.....	do.....	
Aircraft engine R-2800-27.....	90.....	1,980,000	May 2, 1961	do.....	do.....	
Aircraft engine J-48.....	38.....	2,128,000	Apr. 28, 1961	Slight.....	do.....	
Aircraft engine J-34.....	7.....	350,000	Apr. 27, 1961	None.....	do.....	
Aircraft engine J-48.....	30.....	1,680,000	Apr. 26, 1961	do.....	do.....	
Aircraft engine J-34.....	746.....	28,348,000	do.....	do.....	do.....	
Aircraft engine R-2800.....	14.....	322,000	Mar. 27, 1961	do.....	Sell but add a statement that no spare parts are available.	
Aircraft engine J-48.....	108.....	6,048,000	Feb. 1, 1961	do.....	Sell.....	
Aircraft engine J-33.....	225.....	4,725,000	Feb. 9, 1961	do.....	do.....	
Aircraft engine R-2800-31.....	41.....	943,000	Nov. 29, 1960	do.....	do.....	
Aircraft engine A-10-2.....	22.....	2,090,000	Oct. 21, 1960	Slight.....	do.....	
Aircraft engine R-2800.....	48.....	1,104,000	Sept. 30, 1960	do.....	do.....	
Aircraft engine J-46.....	5.....	201,836	do.....	do.....	do.....	
Do.....	11.....	2,220,196	Sept. 19, 1960	do.....	do.....	
Aircraft engine J-33.....	84.....	1,746,000	July 18, 1960	None.....	do.....	
Aircraft engine R-985.....	544.....	3,808,000	Apr. 15, 1960	do.....	do.....	
Aircraft engine J-33.....	29.....	609,000	do.....	do.....	do.....	
Aircraft generators.....	1,183.....	483,847	Mar. 3, 1961	do.....	do.....	
Aircraft engine starters.....	1,479.....	278,052	Feb. 27, 1961	do.....	do.....	
Aircraft crankshaft assemblies.....	220.....	518,100	do.....	do.....	do.....	
Aircraft gyro horizon indicators.....	2,080.....	303,680	Feb. 1, 1961	Slight.....	do.....	
Aircraft rate of climb indicators.....	6,324.....	430,356	do.....	do.....	do.....	
Aircraft afterburners.....	25.....	625,000	Feb. 20, 1961	do.....	do.....	
Aircraft carburetors.....	501.....	250,500	do.....	do.....	Sell but state in bid that no spare parts available.	
Aircraft fuselage truss.....	300.....	789,900	Sept. 29, 1960	do.....	Sell.....	
Aircraft gear box set.....	42.....	9,954,000	Oct. 21, 1960	do.....	do.....	
Aircraft parts.....	288.....	603,450	do.....	do.....	do.....	
Ammonia picrate, yellow.....	1,000,000 pounds.....	600,000	Feb. 5, 1960	None.....	do.....	
Anchor.....	1,792.....	(1)	Dec. 13, 1960	Slight.....	Those weighing 8,000 pounds or more should be sold as scrap.	Sold as recommended.
Antennas.....	55.....	770,000	May 18, 1961	None.....	Sell.....	
B						
Bath unit, truck mounted.....	56.....	267,680	Mar. 13, 1961	do.....	do.....	Do.
Box, fiberboard.....	384,266.....	337,819	Sept. 27, 1960	Slight.....	When offered for sale list in lots of 5,000.	
Brass, slab 70/30.....	5,000,000 pounds.....	1,000,000	Mar. 2, 1960	None.....	Sell.....	

C							
Cable, coaxial.....	305 reels.....	406,640	July 28, 1960	do.....	do.....		
Cable, telephone.....	8,556,000 feet.....	1,026,720	Sept. 23, 1963	do.....	do.....		
Cameras.....	593.....	167,226	Mar. 24, 1961	do.....	do.....		
Can, gasoline.....	230,000.....	517,500	Aug. 30, 1963	do.....	do.....		
Coffee roasting plant.....	1.....	(1)	Feb. 21, 1961	Moderate.....	Offer for sale for export only and also in the same bid without restriction.		
Construction equipment, crane-shovel parts.....	329.....	1,440,000	June 1, 1961	None.....	Sell.....		Pending.
Construction equipment, crane-shovel.....	26.....	512,000	June 12, 1961	Severe.....	Offer 5 for sale in June and balance at rate of 2 per month.		Sale postponed as recommended.
Do.....	16.....	275,200	Mar. 23, 1961	do.....	Withhold until late 1961.		
Construction equipment, crawler cranes.....	8.....	312,640	Mar. 23, 1961	do.....	Withhold until midyear.....		
(Disposal recommendation considered as part of the 50 crane-shovels listed below.)							
Construction equipment, crane-shovel.....	50.....	1,225,000	June 2, 1961	do.....	Offer 18 for sale and withhold 32 pending development of long-range disposal plan.		Sold 24; withhold 20.
Construction equipment, earthmoving scrapers.....	54.....	507,708	Apr. 12, 1960	Slight.....	Sell.....		
D							
Dispensers, scobyuoy.....	100.....	330,000	Jan. 30, 1961	do.....	do.....		
Distillation unit.....	20.....	311,040	Feb. 24, 1961	do.....	Arrangements were made to transfer these to national defense equipment reserve.		
E							
Electronic equipment.....	1.....	551,380	Apr. 6, 1961	None.....	Sell.....		
Engines, diesel.....	47.....	188,000	Aug. 10, 1960	do.....	do.....		
Do.....	89.....	756,000	Apr. 10, 1961	do.....	do.....		
Engines, half track.....	450.....	571,000	Jan. 30, 1961	do.....	do.....		
Engines, diesel.....	36.....	144,000	Oct. 10, 1960	do.....	do.....		
Ethyl, cellulose.....	1,873,148 pounds.....	1,311,203	Mar. 3, 1960	Moderate.....	Sell 1/4 in the near future; 1/4, 6 months after; and 1/2, 6 months after the 2d sale.		Sold as recommended.
F							
Fuel control.....	186.....	600,780	Feb. 1, 1961	None.....	Sell.....		
G							
Generators.....	1,941.....	291,150	Mar. 24, 1961	do.....	do.....		
Do.....	136.....	484,640	Jan. 30, 1961	do.....	do.....		
Do.....	384.....	1,747,100	Nov. 18, 1960	do.....	do.....		
Do.....	1,191.....	4,021,885	Sept. 16, 1960	do.....	Sell 300 units or less per month.		Sold as suggested.
Generator sets (gasoline motor).....	1,236.....	374,508	Jan. 4, 1961	do.....	Sell.....		

1 Not available.

Surplus property market impact actions, January 1960 to June 1961—Continued

Product	Quantity	Cost to Government	BDSA market impact evaluation			Action taken (if known)
			Date	Degree of impact	Recommendation	
H						
Helicopters, Sikorsky	3	\$245,604	Jan. 18, 1961	None	Sell	
Helicopters, Piasecki	4	2,864,132	do	do	do	
Helicopters, Sikorsky	5	409,340	Mar. 28, 1960	do	do	
Hoists, power	438	349,962	Jan. 18, 1961	do	do	
I						
None						
J						
Jeeps	400	972,000	Jan. 5, 1961	Slight	Offer for sale in lots of 1 each	Sold as recommended.
K						
None						
L						
Lithium	1,750,000 pounds	(1)	Mar. 30, 1961	Severe	Withhold pending market survey and revaluation in early 1962.	Withheld.
M						
Magneto, aircraft	2,683	335,375	Apr. 21, 1960	None	Sell	
Mask (cold weather)	102,230	265,796	Sept. 21, 1960	do	do	
N						
None						
O						
Overalls	25,020	300,240	Sept. 21, 1960	None	Sell	
P						
Pallets	19,000	(1)	Jan. 18, 1961	Slight	Sell in two equal lots 30 days apart	Sold as suggested.
Do	7,000	(1)	July 28, 1960	do	do	Do.
Do	40,000	(1)	July 20, 1960	do	Sell 10,000 per month	Do.
Do	16,000	(1)	Jan. 15, 1960	do	Sell 4,000 per month	Do.
Do	16,663	(1)	Jan. 8, 1960	do	Sell in 2 equal lots 30 days apart	Do.
Powder, explosive, smokeless	647,903 pounds	(2)	Jan. 19, 1961	do	Sell	
Q						
None						

R					
Radar sets.....	12	547,500	May 24, 1960	None.....	Sell.....
Receiver-transmitter.....	487	1,193,150	Nov. 23, 1960	do.....	do.....
S					
Ship (LCVP).....	56	356,000	Apr. 10, 1961	do.....	do.....
Ship, freight.....	1	1,200,000	do.....	do.....	do.....
Ships, small, miscellaneous.....	45	(¹)	Mar. 14, 1961	do.....	do.....
Ships (LCVP).....	108	1,461,000	Aug. 10, 1960	do.....	do.....
Do.....	22	285,000	Oct. 7, 1960	do.....	do.....
Ships, small, miscellaneous.....	13	(¹)	June 27, 1960	do.....	do.....
Do.....	19	(¹)	June 13, 1960	do.....	do.....
Ships (ARV).....	10	(¹)	Apr. 11, 1960	do.....	do.....
Ships, small, miscellaneous.....	8	(¹)	Mar. 25, 1960	do.....	do.....
Do.....	29	(¹)	Jan. 26, 1960	do.....	do.....
Searchlights.....	251	824,550	Mar. 4, 1960	do.....	do.....
Sled boat.....	4,038	317,000	Sept. 19, 1960	do.....	do.....
Steel plate.....	875 tons	371,000	May 11, 1960	do.....	do.....
Submarine detecting equipment.....	21	609,000	May 24, 1960	do.....	do.....
T					
Telescopes (MK74).....	887	665,250	June 17, 1960	do.....	do.....
Tents.....	1,427	299,670	Mar. 1, 1961	Slight.....	Sell after June 1, 1961
Tents, hexagonal.....	13,451	1,328,843	Nov. 17, 1960	Moderate.....	Sell 2,000 per quarter
Tents, 16 by 16 by 12 feet.....	4,110	295,920	Nov. 16, 1960	None.....	Sell.....
Tents.....	7,679	775,579	Aug. 12, 1960	Moderate.....	Sell 2,300 on Aug. 17, 1960; balance in 3 separate sales 3 months apart.
Do.....	944	277,536	May 16, 1960	None.....	Sell.....
Tires.....	2,019	413,895	Aug. 6, 1960	do.....	do.....
Tire chains.....	3,000 tons	676,244	Apr. 17, 1961	Moderate.....	Sell as scrap.....
Transmitters, radio.....	12	508,800	Jan. 21, 1961	None.....	Sell.....
Do.....	227	513,020	Nov. 17, 1960	do.....	do.....
Do.....	1,348	713,092	Oct. 25, 1960	do.....	do.....
Trousers.....	89,312 pair	379,565	Mar. 4, 1960	Slight.....	Sell in 2 lots 60 to 90 days apart.
Tubes, condenser.....	159,718	771,293	Mar. 30, 1961	None.....	Sell.....
Do.....	248,032	1,203,895	Feb. 1, 1961	do.....	Sell in lots, 124,000 per month.
Turbine blading sets.....	1,008	945,780	Jan. 18, 1961	Slight.....	Sell as scrap.
U					
None.....					
V					
Vehicles, motor.....	45	(¹)	May 6, 1960	None.....	Sell.....

¹ Not available.
[‡] Cost per pound.

Recommendation accepted.
 Selling as recommended.
 All sold Aug. 17, 1960.
 Pending.
 Sold as recommended.
 Selling as recommended.
 Sold as scrap.

Surplus property market impact actions, January 1960 to June 1961—Continued

Product	Quantity	Cost to Government	BDSA market impact evaluation			Action taken (if known)
			Date	Degree of impact	Recommendation	
W						
Webbing.....	60,598,428 yards...	\$7,826,919	Nov. 23, 1960	Serious.....	Recheck entire list. For specific items the recommendations included. (See footnote 3.) Same as above for 15,822,140 yards. Sell balance of 7,612,881 yards.	Withdrew 37,163,407 yards.
Do..... (Resubmission of residual property listed immediately above.)	23,435,021 yards...	3,248,541	Feb. 21, 1961do.....		Pending; none sold.
Webbing.....	1,700,000 yards....	137,372do.....	Slight.....	Sell if recheck shows no alternate use. Sell 152,000 yards. Withhold 3.5 million yards for original or alternate use.	Recommendation accepted.
Do.....	3,652,000 yards....	1,381,013	Aug. 18, 1960	Moderate.....		

¹ Recheck current and future needs; re dye; use for suggested alternate purposes; if 5 years old, recheck condition and use if passable; provide webbing on hand to contractors for use under "material-provided contracts" for end items such as tents, belts, slings, harnesses, etc.; retain in reserve stock several types having long leadtime.

Source: U.S. Department of Commerce, Business and Defense Services Administration.

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.

MILITARY PRIME CONTRACT AWARDS

JULY 1959 - JUNE 1960

Prepared for
Office of the Assistant Secretary of Defense
Supply and Logistics
by
Statistical Services Center, OSD

LIST OF TABLES

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MILITARY PRIME CONTRACT AWARDS

AWARDS TO SMALL BUSINESS

Summary. Military procurement from business firms totaled \$21,301 million in Fiscal Year 1960 (July 1959 - June 1960), a decrease of \$1,443 million from the \$22,744 million awarded in Fiscal Year 1959.

Small business received \$3,440 million in prime contract awards in Fiscal Year 1960, which was 16.1% of total procurement from all business firms as compared with 16.6% in Fiscal Year 1959 (Tables 1 and 2). Reasons for the lower small business ratio this year are discussed under the caption "Awards by Program".

The concept of the small business potential is intended to indicate the volume of procurement on which small business had an opportunity to bid and the success of small business in competing for those contracts. It is not practicable to obtain this information on transactions of less than \$10,000 each, which number between 5 million and 6 million per year, but represent only 7% of the total value. Therefore, in this report, it is arbitrarily assumed that all transactions of less than \$10,000 are within the capability of small business. This has the effect of understating the percentage of potential that is awarded to small business.

Transactions of \$10,000 or more with business firms totaled \$19,759 million in Fiscal Year 1960, or 92.8% of the total. For \$13,113 million of these purchases (66.4%) no actual or potential small business source was known to the procuring organization. An additional \$2,280 million (11.5%) was not offered to small business for one of the

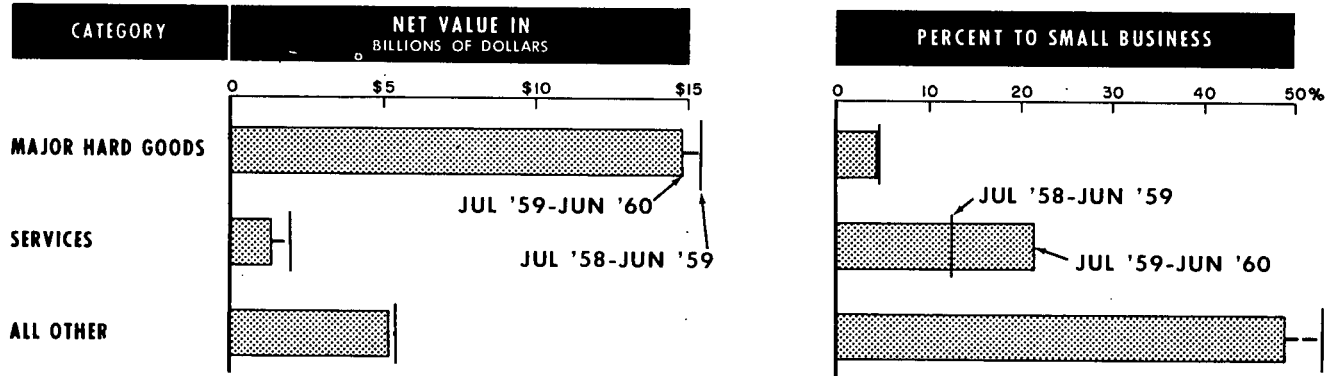
following reasons: Proprietary control, maintenance of the mobilization base, emergency procurement, or small business inability to meet quantitative or delivery requirements (Table 1).

Small business accordingly was invited to bid on a total of \$4,366 million or 22.1% of the transactions of \$10,000 or more, and obtained \$2,444 million or 56.0% of those awards (Table 4). Of the \$1,922 million of these awards which small business failed to obtain, \$476 million or 24.8% was lost when no small business firms submitted a bid, and \$1,325 million or 69.0% was lost because the small business bids were not low. Other factors accounting for \$121 million or 6.2% are shown in Table 4.

The long term trend of military procurement, including the small business percentage, is shown in Table 3. After the close of hostilities in Korea, there was a sharp cutback in military procurement of heavy equipment (Fiscal Year 1954), and a correspondingly sharp increase in the percentage going to small business firms. The international situation and the increasing emphasis on modern expensive weapons brought about a steady increase in the total value of military procurement in each subsequent year until 1960. The dollars awarded to small business firms also increased between Fiscal Years 1954 and 1957, levelled off at the \$3.8 billion rate in Fiscal Years 1958 and 1959, and declined when the total declined in Fiscal Year 1960. The small business percentage of the total has decreased primarily because of the increase in major hard goods, particularly guided missiles.

MILITARY PROCUREMENT BY MAJOR CATEGORIES

FISCAL YEARS 1959 AND 1960



Awards by Program. Data on the net value of procurement actions by Procurement Program are shown in Table 5 for Fiscal Years 1959 and 1960, and in Table 6 for Fiscal Years 1955 through 1960. (The Procurement Program definitions are identical with those prescribed by the Office of Civil and Defense Mobilization for use in the Defense Materials System.)

Table 6 shows that while small business obtained only 4.3% of the awards of \$10,000 or more in the Major Hard Goods programs during Fiscal Year 1960, they received 21.4% of the Service Awards and 48.7% of all other awards. This category includes all awards of less than \$10,000 and all other awards for Subsistence, Clothing and Textiles, Petroleum Products, Construction, and miscellaneous types of hard goods, many of which are commercial products.

Small business received some awards in all the Major Hard Goods programs, ranging from 1.2% of the Missile funds to 19.0% of the Weapons awards. However, taking all these programs together, small business was able to compete successfully for only 4.3% of the total awarded in the Major Hard Goods Categories.

The lower small business ratio of 16.1% in Fiscal Year 1960 compared to 16.6% last year is the result of several factors. Awards in the Missiles Systems Program this year continued to increase to 23.4% of the total compared to 19.7% last year, and this program affords less opportunity than any other for small business prime contracts (1.2%). Two other programs which are closely related to the Missile Systems Program also contributed to the small business percentage decline. The Electronics Program increased from 10.9% to 14.2% of all procurement

and the small business ratio decreased from 10.3% to 7.8%. The small business ratio in the Construction Program declined from 65.1% to 50.0%, mainly because of awards of large contracts for the construction of missile launching sites.

Awards for Experimental, Developmental, Test and Research Work. The net value of contract awards for Experimental, Developmental, Test or Research work (EDTR) is shown in Tables 7 and 8. Data for such contracts are included in all other tables in this report according to the applicable contract category. For example, in Tables 5 and 6 these contracts are distributed according to the programs with which EDTR work is associated. In Fiscal Year 1960, contract awards for such work totalled \$5,551 million. Awards of this type have increased in relative importance from 13.5% of total procurement in Fiscal Year 1956 to 25.6% in Fiscal Year 1960.

Small business firms received \$180 million in EDTR prime contracts during Fiscal Year 1960, compared to \$170 million during the previous year, and the small business ratio declined slightly to 3.4% from 3.5%.

Formally Advertised and Negotiated Awards. Tables 9 and 10 show the dollar volume of procurement placed with small business and other contractors by formal advertising and negotiation procedures. Formally advertised contracts accounted for 14.0% of total procurement from U. S. business firms in Fiscal Year 1960, as compared with 13.6% in Fiscal Year 1959. From Table 10 it may be seen that negotiated contracts accounted for two-thirds of the value of small business awards.

METHODS OF PROCUREMENT

Table 11 shows the extent of price competition in negotiated as well as advertised procurement.

In Fiscal Year 1960, small purchase procedures in the U. S. accounted for 5,040,654 actions, or 82.6% of the total number of actions, and these actions represented 3.6% of the total value. Small purchase procedures require the negotiation of procurements of \$2,500 or less, because the administrative costs of formal advertising would be very high in relation to the procurement value. For actions of more than \$100 each, competition is assured by a requirement that a reasonable number of quotations be obtained from qualified suppliers. For procurements of less than \$100, purchases must be distributed equitably over a period of time among qualified suppliers.

Other negotiated procurement procedures which involve price competition include: formal advertising that is restricted to small business firms, set-asides in which a portion of the required quantity is reserved for bidding by small business concerns or firms in labor surplus areas, and other negotiations in which awards are based on price proposals solicited from two or more concerns. These methods accounted for 12.6% of the total procurement value.

In total, 26.4% of the net value of military procurement in Fiscal Year 1960 was advertised or negotiated on the basis of price competition. About 67% was negotiated with one-source. Included in the "one-source" figures are modifications or follow-on orders under existing contracts which may or may not have been originally awarded as a result of price competition.

The principal reasons for negotiating procurement with a single supplier are that high starting costs already have been paid by the Government or suppliers, or that the procurement is for the continued development of equipment by the design source, or is for the continuation of existing production programs. In Fiscal Year 1959 a special survey was made, covering 80% of the total value of new procurement negotiated with one source, in order to determine the extent to which such procurement resulted from contracts initially awarded after design or technical competition, or represented re-orders against contracts initially placed by price competition. It was found that 83% of the one-source procurement studied had originally involved technical, design, or price competition.

NEGOTIATION AUTHORITY

Tables 12, 13 and 14 present data on the 17 types of negotiation authority specified in Title 10, Section 2304 (a) of the United States Code.

Clause 3, Purchases of not more than \$2,500 account-

ed for 86.4% of the number of negotiated actions in Fiscal Year 1960, and Clause 6, Purchases Outside the United States for 9.2% (Table 13). These exceptions accounted for only 9.0% of the negotiated dollars.

In dollar terms, Clause 14, Technical or Specialized Supplies Requiring Substantial Initial Investment or Extended Period of Preparation for Manufacture, was the most important exception, accounting for 30.6% of total negotiated procurement. Clause 11, Experimental, Developmental, Test and Research work, represented 22.2% of the total, and Clause 10, Impractical to Secure Competition by Formal Advertising accounted for 16.8% (Table 12).

CONTRACT PRICING PROVISIONS

Tables 15, 16 and 17 show the types of contract pricing provisions used in military procurement. Statistics on contract pricing provisions are available only for awards of \$10,000 or more. Since the awards of less than this amount are predominantly fixed price type, the omission of small awards understated the fixed price category.

AWARDS TO SMALL & OTHER CONTRACTORS

Table 1
NET VALUE OF MILITARY PROCUREMENT ACTIONS AWARDED TO SMALL AND OTHER CONTRACTORS^{a/}

Fiscal Years 1959 and 1960

(Amounts in Thousands)

Procurement Action Category	July 1958-June 1959				July 1959-June 1960			
	Total	Army	Navy	Air Force	Total	Army	Navy	Air Force
TOTAL	\$25,312,065	6,008,638	\$7,671,313	\$11,632,114	\$23,688,533	\$5,882,216	\$7,420,636	\$10,385,681
INTRAGOVERNMENTAL	758,347	248,148	141,219	368,980	780,875	256,265	154,319	370,291
FOR WORK OUTSIDE U. S.	1,410,051	663,199	490,918	255,934	1,226,316	604,149	395,223	226,944
EDUCATIONAL AND NON-PROFIT INSTITUTIONS	399,438	140,226	97,849	161,363	379,896	111,275	125,527	143,094
TOTAL WITH BUSINESS FIRMS FOR WORK IN THE U.S.	22,744,229	4,957,065	6,941,327	10,845,837	21,301,446	4,910,527	6,745,567	9,645,352
Actions of Less than \$10,000	1,502,532	696,558	386,183	419,786	1,542,665	695,901	422,395	424,369
Actions of \$10,000 or More	21,241,697	4,260,507	6,555,139	10,426,051	19,758,781	4,214,626	6,323,172	9,220,983
<u>Small Business Potential</u>	<u>5,999,457</u>	<u>2,813,779</u>	<u>1,732,959</u>	<u>1,452,719</u>	<u>5,908,389</u>	<u>2,767,775</u>	<u>1,770,319</u>	<u>1,370,295</u>
Actions of Less than \$10,000	1,502,532	696,558	386,183	419,786	1,542,665	695,901	422,395	424,369
Actions of \$10,000 or More Offered to Small Business	4,496,925	2,117,221	1,346,771	1,032,933	4,365,724	2,071,874	1,347,924	945,926
<u>Actions of \$10,000 or More Not Offered to Small Business</u>	<u>16,744,772</u>	<u>2,143,286</u>	<u>5,208,368</u>	<u>9,393,118</u>	<u>15,393,057</u>	<u>2,142,752</u>	<u>4,975,248</u>	<u>8,275,057</u>
No Known Small Business Source	14,235,029	1,290,033	3,700,392	9,244,604	13,112,666	1,133,071	3,854,201	8,125,394
Emergency Procurement	90,516	15,957	67,332	7,227	78,282	39,731	26,725	9,826
Maintenance of the Mobilization Base	740,450	692,622	49,050	(-1,222)	396,906	378,152	18,718	36
Items under Proprietary Control or Standardized	879,901	96,839	767,835	15,227	782,786	367,430	427,705	(-)12,349
Small Business Cannot Meet Quantitative or Delivery Requirements	798,876	47,835	623,759	127,283	1,022,417	224,368	645,899	452,150
WITH SMALL BUSINESS FIRMS	3,782,850	1,740,121	1,122,836	919,893	3,439,639	1,527,917	1,047,985	863,737
Actions of Less than \$10,000	983,361	470,321	239,472	273,568	995,675	465,864	264,632	264,183
Actions of \$10,000 or More	2,799,489	1,269,800	883,364	646,325	2,443,960	1,062,053	782,353	599,554
WITH OTHER BUSINESS FIRMS	18,961,379	3,216,944	5,818,491	9,925,944	17,861,807	3,382,610	5,697,582	8,781,615
Actions of Less than \$10,000	519,171	226,237	146,716	146,218	545,986	230,037	156,763	160,186
Actions of \$10,000 or More	18,442,208	2,990,707	5,671,775	9,779,726	17,314,821	3,152,573	5,540,819	8,621,429
SMALL BUSINESS PERCENTAGES								
Percent of Small Business Potential	63.1%	61.8%	64.8%	63.3%	58.2%	55.2%	59.2%	63.0%
Percent of Total with Business Firms	16.6%	35.4%	16.2%	8.5%	16.1%	31.1%	15.5%	9.0%

a/ For definitions and coverage, see Notes on Coverage.

Table 2
NET VALUE OF MILITARY PROCUREMENT ACTIONS AWARDED TO SMALL AND OTHER CONTRACTORS^{a/}
Fiscal Years 1959 and 1960, By Quarter

Procurement Action Category	Fiscal Year 1959					Fiscal Year 1960				
	Total	Jul-Sep 58	Oct-Dec 58	Jan-Mar 59	Apr-Jun 59	Total	Jul-Sep 59	Oct-Dec 59	Jan-Mar 60	Apr-Jun 60
TOTAL	\$25,312,065	\$5,021,388	\$6,359,074	\$5,205,720	\$8,424,883	\$23,688,531	\$5,259,705	\$3,339,514	\$5,577,522	\$7,681,715
Army	6,008,638	1,237,798	1,849,865	1,312,237	2,208,738	5,882,216	1,013,168	1,270,503	1,332,614	2,265,931
Navy	7,674,313	1,619,604	1,788,116	1,865,259	2,398,014	7,420,636	1,874,658	1,519,159	1,799,806	2,227,013
Air Force	11,629,114	2,163,966	3,320,793	2,329,224	3,818,131	10,385,681	2,321,879	2,549,852	2,525,102	3,188,771
INTRAGOVERNMENTAL	758,347	200,899	238,790	155,926	162,732	780,875	224,258	217,868	156,613	182,194
Army	248,148	57,012	68,308	58,676	64,152	256,265	57,191	73,674	54,581	70,819
Navy	181,219	50,571	34,082	26,848	29,718	154,319	45,932	103,202	34,302	33,677
Air Force	368,980	93,316	136,400	70,302	68,862	370,291	121,659	103,202	68,357	77,673
FOR WORK OUTSIDE U.S.	1,410,051	395,378	312,395	260,769	441,509	1,226,316	\$3,306	292,604	208,213	282,193
Army	663,199	123,495	92,755	160,298	286,691	604,149	130,669	107,757	108,500	257,223
Navy	490,918	236,032	143,106	49,675	62,405	395,223	194,765	84,786	56,814	58,898
Air Force	255,934	35,851	76,534	50,836	92,413	226,944	57,872	60,061	42,899	66,112
EDUCATIONAL & NON-PROFIT INSTITUTIONS	392,438	83,314	93,821	125,968	96,311	372,696	90,156	87,076	80,424	122,240
Army	140,226	40,116	20,869	38,646	40,595	111,275	47,708	21,673	17,518	24,376
Navy	97,849	7,900	31,789	31,054	21,106	125,527	20,334	22,767	29,589	22,837
Air Force	161,363	35,298	35,193	56,268	34,610	143,094	22,114	42,636	33,317	45,027
WITH BUSINESS FIRMS FOR WORK IN THE U.S.	22,744,229	4,344,797	5,714,038	4,964,083	7,724,311	21,301,446	4,211,985	4,782,026	5,012,347	6,995,088
Army	4,977,065	1,017,175	1,067,933	1,054,657	1,817,300	4,910,527	777,600	1,067,399	1,152,015	1,913,513
Navy	6,941,327	1,325,121	1,573,432	1,757,622	2,285,085	6,745,561	1,614,151	1,370,874	1,679,726	2,081,016
Air Force	10,845,837	1,999,501	3,072,666	2,151,744	3,621,926	9,645,358	2,120,234	2,343,953	2,180,606	3,000,559
SMALL BUSINESS POTENTIAL ^{b/}	5,222,457	1,249,491	1,273,472	1,335,241	2,150,253	5,208,399	1,317,025	1,232,344	1,300,197	2,058,813
Army	2,811,779	556,292	544,929	687,603	1,024,955	2,767,775	542,294	607,645	598,168	1,019,068
Navy	1,732,959	420,302	350,111	393,397	569,149	1,770,319	437,753	341,365	405,690	559,311
Air Force	1,452,719	263,897	378,432	254,241	556,149	1,370,295	336,978	283,344	295,139	484,434
WITH SMALL BUSINESS FIRMS	3,782,850	722,283	811,923	878,819	1,369,825	3,439,632	807,645	701,132	739,832	1,191,030
Army	1,740,121	310,285	360,552	446,018	623,866	1,527,917	348,309	319,802	331,552	528,254
Navy	1,122,836	248,471	219,860	289,280	395,265	1,047,585	238,875	200,720	230,246	371,074
Air Force	919,893	163,527	231,511	163,561	350,294	863,737	220,461	173,540	178,034	291,702
SMALL BUSINESS PERCENT OF POTENTIAL	63.3%	58.5%	63.0%	65.0%	63.7%	28.5%	61.3%	56.9%	56.9%	51.9%
Army	61.8	55.8	64.9	60.8	55.2	59.2	54.6	60.9	52.6	51.8
Navy	64.8	59.1	62.8	68.4	67.7	59.8	54.6	60.9	56.7	63.4
Air Force	63.3	62.0	61.2	64.3	65.0	63.0	65.1	61.3	60.2	64.2
SMALL BUSINESS PERCENT OF TOTAL	16.6%	16.6%	14.2%	17.7%	17.7%	16.1%	17.9%	14.7%	14.0%	17.0%
Army	35.1	30.5	33.8	42.3	34.3	31.1	44.8	30.0	38.8	27.6
Navy	16.2	18.8	14.0	15.3	16.9	14.8	15.2	14.8	13.7	17.8
Air Force	8.5	8.2	7.5	7.6	10.0	9.0	10.4	7.4	8.2	9.7

a/ For definitions and coverage, see Notes on Coverage.

b/ All actions of less than \$10,000 and actions of \$10,000 or more offered to small business.

c/ Revised.

CHART II
**PERCENT OF NET VALUE AND NUMBER OF MILITARY PROCUREMENT ACTIONS
 AWARDED TO SMALL AND OTHER BUSINESS**

JULY 1959 - JUNE 1960

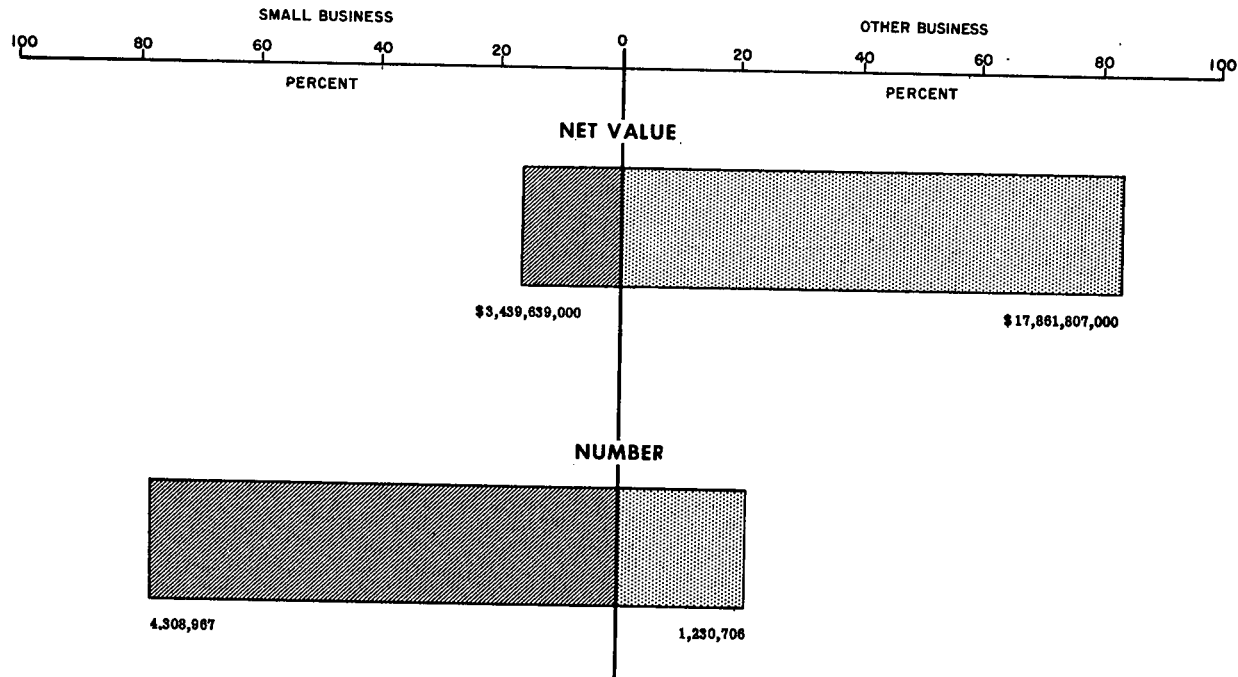


Table 3
NET VALUE OF MILITARY PROCUREMENT ACTIONS AWARDED TO SMALL AND OTHER CONTRACTORS ^{a/}

Fiscal Years 1951 - 1960

(Amounts in Millions)										
Procurement Action Category	FY 1951	FY 1952	FY 1953	FY 1954	FY 1955	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960
TOTAL	\$12,649	\$13,569	\$11,812	\$13,279	\$16,582	\$19,590	\$21,458	\$24,197	\$25,312	\$23,689
Army	15,872	20,101	9,408	3,110	7,238	7,096	7,456	7,993	6,009	5,882
Navy	8,059	10,923	7,907	4,349	4,659	6,240	6,589	6,991	7,671	7,421
Air Force	8,918	12,545	14,497	5,820	6,685	8,654	9,413	11,213	11,632	10,386
INTRAGOVERNMENTAL	1,064	768	572	420	541	434	462	531	758	781
Army	360	372	315	244	239	166	178	203	248	256
Navy	599	264	143	81	164	96	79	100	141	155
Air Force	105	132	114	95	138	172	205	228	369	370
FOR WORK OUTSIDE U. S.	762	1,219	3,418	1,411	1,111	1,406	1,602	1,444	1,410	1,226
Army	681	1,025	2,015	920	697	699	729	740	663	604
Navy	8	59	481	206	215	502	551	530	491	395
Air Force	73	235	921	285	199	205	322	174	256	227
EDUCATIONAL & NON-PROFIT INSTITUTIONS ^{b/}	NA	NA	NA	NA	NA	NA	261	395	400	380
Army							103	198	180	111
Navy							65	98	98	126
Air Force							93	107	162	143
WITH BUSINESS FIRMS FOR WORK IN THE U.S.	10,823	41,482	27,822	11,448	14,930	17,750	19,133	21,827	22,744	21,302
Army	14,631	18,704	7,077	1,946	4,502	4,931	4,446	4,852	4,957	4,911
Navy	7,452	10,600	7,283	4,062	4,280	5,642	5,894	6,271	6,941	6,746
Air Force	8,740	12,178	13,462	5,440	6,348	8,277	8,793	10,704	10,846	9,645
SMALL BUSINESS POTENTIAL ^{c/}	NA	NA	NA	NA	NA	5,444	6,250	5,830	6,006	5,908
Army						2,476	2,958	2,734	2,811	2,768
Navy						1,908	2,268	1,877	1,733	1,770
Air Force						1,060	1,124	1,219	1,453	1,370
WITH SMALL BUSINESS FIRMS	6,436	7,066	4,608	2,902	3,214	3,475	3,783	3,722	3,783	3,440
Army	4,362	3,960	2,584	1,488	1,834	1,675	1,827	1,801	1,740	1,528
Navy	1,213	2,409	1,415	856	804	1,114	1,231	1,172	1,123	1,048
Air Force	861	697	609	558	576	686	725	756	920	864
SMALL BUSINESS PERCENT OF POTENTIAL	NA	NA	NA	NA	NA	63.8%	60.5%	64.0%	63.1%	58.2%
Army						67.7	63.9	65.9	61.8	55.2
Navy						58.4	54.3	62.4	64.8	59.2
Air Force						64.7	64.4	62.0	63.3	63.0
SMALL BUSINESS PERCENT OF TOTAL	20.9%	17.0%	16.6%	25.3%	21.5%	19.6%	19.8%	17.1%	16.6%	16.1%
Army	29.8	21.2	36.5	76.5	42.6	43.7	41.1	37.1	35.1	31.1
Navy	16.3	22.7	19.4	21.1	18.8	19.7	20.9	18.7	16.2	15.5
Air Force	9.9	5.7	4.5	10.3	9.1	8.3	8.2	7.1	8.5	9.0

^{a/} For definitions and coverage, see Notes on Coverage.

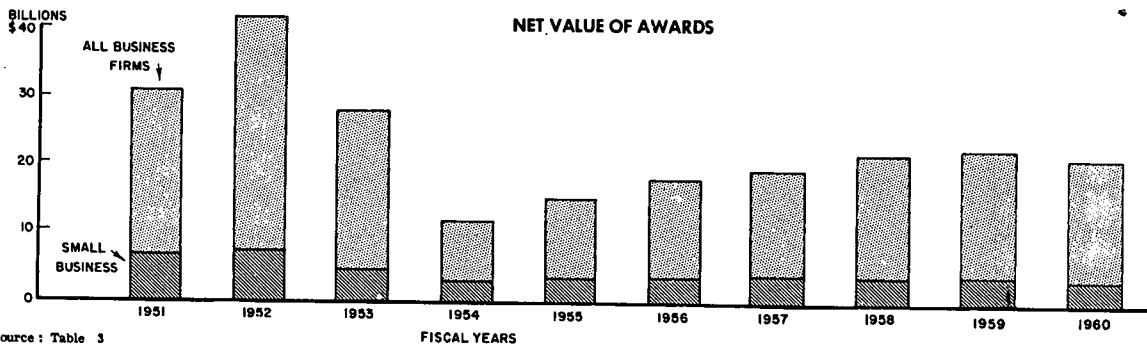
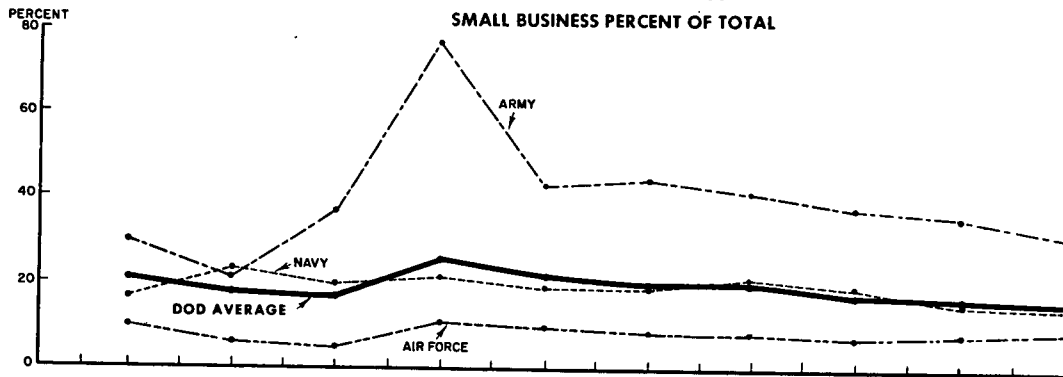
^{b/} Prior to Fiscal Year 1957, data on Educational and Non-Profit Institutions were included in the data for "Business Firms for Work in the U. S."

^{c/} All actions of less than \$10,000 and actions of \$10,000 or more offered to small business.

NA Not Available.

MILITARY PROCUREMENT FROM SMALL BUSINESS AND OTHER FIRMS

FISCAL YEARS 1951-1960



Source: Table 3

AWARDS OFFERED TO SMALL BUSINESS

Table 4
NET VALUE OF MILITARY PROCUREMENT ACTIONS OF \$10,000 OR MORE WHICH
WERE OFFERED TO SMALL BUSINESS FIRMS ^{a/}

Fiscal Years 1959 and 1960

(Amounts in Thousands)

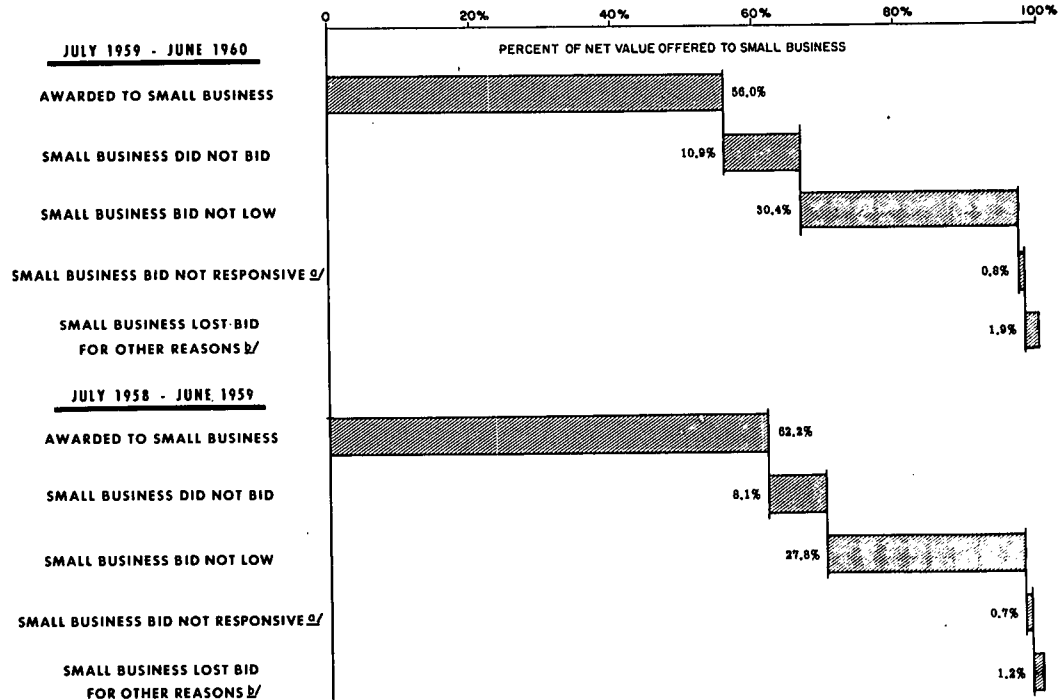
Procurement Action Category	July 1958-June 1959				July 1959-June 1960			
	Total	Army	Navy	Air Force	Total	Army	Navy	Air Force
<u>VALUE</u>								
OFFERED TO SMALL BUSINESS, ACTIONS OF \$10,000 OR MORE	\$4,496,925	\$2,117,221	\$1,346,171	\$1,032,933	\$4,365,724	\$2,071,874	\$1,347,924	\$945,926
AWARDED TO SMALL BUSINESS FIRMS	2,799,489	1,269,800	883,364	646,325	2,443,960	1,062,053	782,353	599,554
NOT AWARDED TO SMALL BUSINESS FIRMS	1,697,436	847,421	463,407	386,608	1,921,764	1,009,821	565,571	346,372
Small Business Did Not Bid	362,623	158,931	83,849	119,843	475,804	286,941	91,897	96,966
Small Business Bid Was Not Low	1,248,775	659,562	358,585	230,228	1,325,365	692,312	448,405	184,648
Small Business Bid Was Not Responsive	30,648	7,051	11,213	12,384	36,637	11,760	14,013	10,864
Small Business Bidder Was Not A "Responsible" Prospective Contractor (ASPR 1-900)	8,231	3,026	2,846	2,359	10,887	4,618	5,026	1,243
Small Business Bid Not Accepted for Other Reasons ^{b/}	47,159	18,851	6,514	21,794	73,071	14,190	6,230	52,651
<u>PERCENTAGE DISTRIBUTION</u>								
OFFERED TO SMALL BUSINESS, ACTIONS OF \$10,000 OR MORE	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
AWARDED TO SMALL BUSINESS FIRMS	62.2	60.0	65.6	62.6	56.0	51.3	58.0	63.4
NOT AWARDED TO SMALL BUSINESS FIRMS	37.8	40.0	34.4	37.4	44.0	48.7	42.0	36.6
Small Business Did Not Bid	8.1	7.5	6.2	11.6	10.9	13.8	6.8	10.3
Small Business Bid Was Not Low	27.8	31.2	26.7	22.3	30.4	33.4	33.3	19.5
Small Business Bid Was Not Responsive	0.7	0.3	0.8	1.2	0.8	0.6	1.0	1.1
Small Business Bidder Not a "Responsible" Prospective Contractor (ASPR 1-900)	0.2	0.1	0.2	0.2	0.2	0.2	0.4	0.1
Small Business Bid Not Accepted for Other Reasons ^{b/}	1.0	0.9	0.5	2.1	1.7	0.7	0.5	5.6

^{a/} For definitions and coverage, see Notes on Coverage. Data on reasons for small business failure to obtain potential awards are not available for procurement actions of less than \$10,000.

^{b/} For reasons which in most cases relate to quality or technical evaluation of product.

CHART IV

**MILITARY PROCUREMENT ACTIONS OF \$10,000 OR MORE OFFERED TO SMALL BUSINESS
FISCAL YEARS 1959 AND 1960**



Source: Table 4

^{a/} Did not comply with specifications or other procurement requirements.

^{b/} Small Business Bidder not a "Responsible Prospective Contractor", Armed Services Procurement Regulation 1-307, or not acceptable for other reasons.

AWARDS BY PROCUREMENT PROGRAM

Table 5
NET VALUE OF MILITARY PROCUREMENT ACTIONS, BY PROGRAM ^{b/}

Fiscal Years 1959 and 1960

Program	July 1958-June 1959				July 1959-June 1960			
	Total Amount	Percent	Small Business		Total Amount	Percent	Small Business	
			Amount	Percent of Program			Amount	Percent of Program
TOTAL	\$25,312,065				\$23,688,533			
INTRAGOVERNMENTAL FOR WORK OUTSIDE U. S. EDUCATIONAL AND NON-PROFIT INSTITUTIONS	758,347 1,410,051 399,438				780,875 1,226,316 379,896			
WITH BUSINESS FIRMS FOR WORK IN THE U. S. Actions of Less than \$10,000 Actions of \$10,000 or More ^{b/}	22,744,229 1,502,532 21,241,697	100.0% 6.6 93.4	\$1,792,850 983,361 2,799,489	16.6% 55.4 13.2	21,301,446 1,542,665 19,798,781	100.0% 7.2 92.8	\$2,439,639 959,679 2,443,960	16.1% 64.3 12.4
Aircraft (Total)	6,487,043	28.5	175,091	2.7	4,788,349	22.5	126,161	2.6
Aircraft and Related Assemblies and Spares	4,952,468	20.0	67,677	1.3	3,115,921	14.8	40,909	1.3
Aircraft Engines and Related Spares	1,208,089	5.3	19,493	1.6	961,581	4.5	15,888	1.7
Other Aircraft Equipment and Supplies	726,486	3.2	87,921	12.1	660,847	3.2	69,364	10.2
Missile Systems	4,490,340	19.7	62,212	1.4	4,583,735	23.4	58,976	1.2
Ships	1,094,793	4.8	90,031	8.2	1,009,671	4.7	87,960	8.7
Tank-Automotive (Total)	350,096	1.5	28,785	16.8	403,847	1.9	58,763	14.6
Combat Vehicles	129,780	0.6	14,281	11.0	242,870	1.1	31,823	13.1
Non-Combat Vehicles	220,316	0.9	44,504	20.2	160,977	0.8	26,940	16.7
Weapons	186,997	0.8	26,080	13.9	120,555	0.6	22,892	19.0
Ammunition	356,436	1.6	44,965	12.6	475,647	2.2	47,152	9.9
Electronics and Communication Equipment	2,474,171	10.9	253,822	10.3	3,026,189	14.2	234,780	7.8
Fuels and Lubricants (Total)	281,322	4.3	210,227	21.4	828,225	4.0	176,971	20.6
Petroleum	934,453	4.1	124,522	20.9	811,572	3.8	159,639	19.7
Other Fuels and Lubricants	39,344	0.2	13,664	34.7	42,217	0.2	15,261	36.1
Separately Procured Containers & Handling Equipment	9,549	*	1,341	14.0	5,335	*	2,071	38.8
Textiles, Clothing and Equipage	177,654	0.8	124,482	70.1	176,861	0.8	119,894	67.8
Military Building Supplies	14,225	0.1	10,749	75.6	13,269	0.1	4,706	35.5
Subsistence	490,851	2.2	265,471	54.1	468,734	2.2	268,690	57.3
Transportation Equipment	453	*	131	28.9	573	*	185	32.3
Production Equipment	147,192	0.7	12,412	8.4	63,490	0.3	13,880	21.9
Construction	1,409,792	6.2	918,132	65.1	1,207,317	5.7	603,963	50.0
Miscellaneous (Total)	704,795	3.1	313,308	44.5	840,184	4.0	375,861	40.0
Construction Equipment	39,289	0.2	18,227	47.0	40,986	0.2	10,505	26.4
Medical and Dental Supplies & Equipment	72,962	0.3	17,931	24.6	57,624	0.3	16,161	31.5
Photographic Equipment and Supplies	50,857	0.2	16,866	37.1	62,108	0.3	21,175	34.1
Material Handling Equipment	24,702	0.1	5,509	22.3	28,678	0.1	6,414	22.4
All Other Supplies and Equipment	517,069	2.3	259,575	48.8	620,788	3.1	279,306	48.9
Services	1,875,477	8.2	233,591	12.5	1,321,234	6.2	283,126	21.4

^{b/} For definitions and coverage, see Notes on Coverage.

^{c/} Program data below add to totals on this line; data by program are not available for actions of less than \$10,000.

^{d/} Less than 0.05 percent.

CHART V
MILITARY PROCUREMENT BY PROGRAM
 FISCAL YEARS 1959 AND 1960

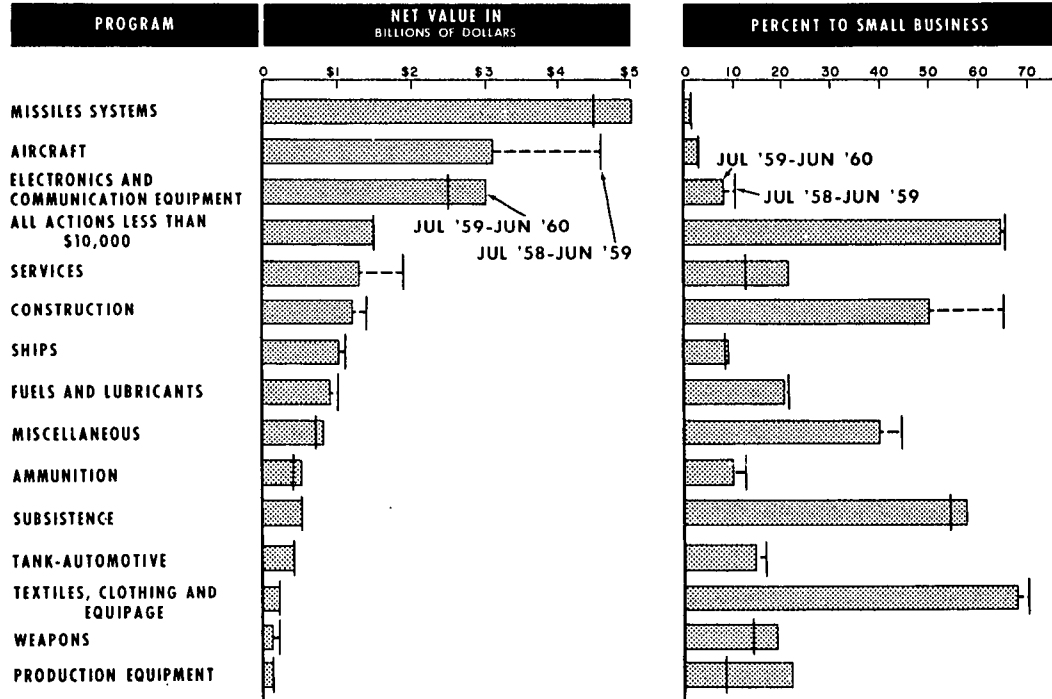


Table 6
NET VALUE OF MILITARY PROCUREMENT ACTIONS, BY MAJOR PROGRAM^{a/}

Fiscal Years 1955 - 1960

Major Programs	Net Value (\$ 000)						Percent of Total					
	FY 1955	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960	FY 1955	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960
TOTAL	\$16,582,632	\$19,590,435	\$21,457,425	\$24,196,977	\$25,312,065	\$23,688,533						
INTRAGOVERNMENTAL FOR WORK OUTSIDE U. S.	541,371	434,448	462,389	531,179	758,347	780,875						
EDUCATIONAL & NON-PROFIT INSTITUTIONS	1,111,015	1,405,903	1,601,624	1,444,082	1,410,051	1,226,316						
	b/	b/	260,715	394,976	399,438	379,896						
WITH ALL BUSINESS FIRMS FOR WORK IN THE U.S. - TOTAL	14,930,246	17,750,084	19,132,697	21,826,740	22,744,229	21,301,446	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
MAJOR HARD GOODS (Total)	9,421,792	10,123,541	10,771,239	13,895,607	15,439,876	14,808,194	63.1%	57.0%	56.3%	63.7%	67.8%	69.5%
Aircraft	5,423,813	5,780,382	5,018,833	7,416,184	6,487,043	4,788,349	36.3	32.6	26.2	33.9	28.7	25.5
Missile Systems	801,915	1,002,421	1,863,711	2,836,984	4,490,340	4,983,736	5.4	5.6	9.8	13.0	19.7	23.4
Ships	552,279	790,409	927,467	650,199	1,094,793	1,009,671	3.7	4.4	4.8	3.0	4.8	4.7
Tank-Automotive	434,074	374,568	364,291	495,028	350,096	403,847	2.9	2.1	1.9	2.3	1.5	1.9
Weapons	331,016	209,287	274,163	212,146	186,997	120,755	2.2	1.2	1.4	1.0	0.8	0.6
Ammunition	734,841	377,592	434,088	296,039	356,436	475,687	4.9	2.1	2.3	1.4	1.6	2.2
Electronics & Communications Equipment	1,143,854	1,588,882	1,888,686	1,987,027	2,474,171	3,026,189	7.7	9.0	9.9	9.1	10.9	14.2
SERVICES	1,447,710	2,326,514	2,770,544	2,719,916	1,875,477	1,321,234	9.7%	13.1%	14.5%	12.4%	8.2%	6.2%
ALL OTHER (Total)	4,060,744	2,300,029	2,590,914	2,211,217	2,428,876	2,172,018	27.2%	29.9%	29.2%	23.9%	24.0%	24.3%
Subsistence	465,905	450,045	510,309	462,829	490,951	468,734	3.1	2.5	2.7	2.1	2.2	2.2
Textiles, Clothing & Equipage	165,846	169,732	330,842	242,374	177,654	176,861	1.1	1.0	1.7	1.1	0.8	0.8
Fuels & Lubricants	386,446	868,675	952,059	965,809	981,382	858,925	2.6	4.9	5.0	4.0	4.3	4.0
Miscellaneous Hard Goods	902,312	1,288,750	883,401	803,214	866,665	917,516	6.0	7.3	4.6	3.7	3.9	4.4
Construction	995,567	1,302,277	1,633,367	1,524,963	1,409,792	1,207,317	6.7	7.3	8.5	7.0	6.2	5.7
All Actions of Less Than \$10,000	1,144,668	1,220,550	1,200,936	1,312,088	1,502,532	1,542,665	7.7	6.9	6.7	6.0	6.6	7.2
WITH SMALL BUSINESS FIRMS FOR WORK IN THE U.S. - TOTAL	\$ 3,214,841	\$ 3,475,315	\$ 3,782,526	\$ 3,729,018	\$ 3,782,850	\$ 3,439,639	21.5%	19.6%	19.8%	17.3%	16.6%	16.1%
MAJOR HARD GOODS (Total)	533,410	500,078	573,148	541,803	710,286	635,684	5.7%	4.9%	5.3%	3.9%	4.6%	4.3%
Aircraft	90,159	79,899	112,537	123,305	175,091	126,161	1.7	1.4	2.2	1.7	2.7	2.6
Missile Systems	23,074	20,972	36,156	62,212	58,976	58,976	2.9	2.1	1.9	1.5	1.4	1.2
Ships	86,663	98,741	125,316	80,686	90,321	87,960	15.7	12.5	13.5	12.4	8.2	8.7
Tank-Automotive	47,885	46,897	42,069	45,257	58,785	58,785	11.0	12.5	11.5	9.1	16.8	14.6
Weapons	39,940	29,577	26,740	21,713	26,080	22,892	12.1	11.3	6.1	10.2	13.9	19.0
Ammunition	109,946	68,671	62,435	36,167	44,865	47,152	15.0	18.2	14.4	12.1	12.6	9.9
Electronics & Communications Equipment	135,743	161,321	177,915	193,417	253,822	234,780	11.9	18.2	9.4	9.7	10.3	7.8
SERVICES	527,362	283,647	269,175	226,512	233,591	283,126	36.5%	12.3%	9.7%	8.3%	12.5%	21.4%
ALL OTHER (Total)	2,154,069	2,150,590	2,340,203	2,960,703	2,838,274	2,519,889	53.0%	50.8%	52.6%	56.8%	52.3%	48.7%
Subsistence	265,647	251,638	256,814	247,398	265,471	268,090	52.7	56.5	50.3	53.3	54.1	57.3
Textiles, Clothing & Equipage	84,110	114,012	202,797	153,309	124,482	119,804	50.7	67.2	61.3	63.3	70.1	67.8
Fuels & Lubricants	69,631	193,974	232,856	267,888	210,227	176,971	28.0	22.3	24.5	30.9	21.4	20.6
Miscellaneous Hard Goods	343,803	384,041	363,118	312,757	336,600	354,632	38.1	29.8	41.1	38.9	38.8	38.7
Construction	651,771	935,081	1,039,194	1,110,456	918,132	603,963	65.5	71.8	63.6	72.8	65.1	50.0
All Actions of Less Than \$10,000	759,107	812,644	945,397	868,895	903,361	995,679	66.3	66.6	66.0	66.2	65.4	64.5

a/ For definitions and coverage, see Notes on Coverage

b/ Prior to fiscal year 1957, data for Educational and Non-Profit Institutions were included in the data for Business Firms for Work in the U. S.

**AWARDS FOR EXPERIMENTAL,
DEVELOPMENTAL, TEST AND
RESEARCH WORK**

Table 7
NET VALUE OF MILITARY PROCUREMENT ACTIONS FOR EXPERIMENTAL, DEVELOPMENTAL,
TEST AND RESEARCH WORK^{a/}

Fiscal Years 1956 - 1960

Procurement Action Category	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960
TOTAL EDTR	\$2,404,440	\$3,256,371	\$4,031,036	\$5,239,057	\$2,551,054
Army	387,205	432,149	624,932	772,931	755,645
Navy	516,117	713,148	986,831	1,254,372	1,560,122
Air Force	1,501,118	2,111,074	2,419,273	3,211,754	3,215,287
EDUCATIONAL & NON-PROFIT INSTITUTIONS b/	NA	223,228	288,107	340,465	316,809
Army		71,377	101,998	91,399	63,794
Navy		62,849	87,449	94,998	122,562
Air Force		89,002	98,660	154,068	130,453
WITH BUSINESS FIRMS FOR WORK IN THE U.S.	2,404,440	3,033,143	3,742,929	4,898,592	2,234,245
Army	387,205	360,772	522,934	681,532	691,851
Navy	516,117	650,299	899,382	1,159,374	1,457,560
Air Force	1,501,118	2,022,072	2,320,613	3,057,686	3,084,834
SMALL BUSINESS FIRMS	137,076	130,502	138,686	169,962	179,687
Army	36,569	35,732	37,267	51,855	42,855
Navy	45,751	54,826	52,868	66,744	79,457
Air Force	54,756	39,944	48,551	51,363	57,375
SMALL BUSINESS PERCENT OF TOTAL EDTR	5.7%	4.3%	3.7%	3.5%	3.4%
Army	9.4	9.7	7.1	7.6	6.2
Navy	8.9	8.4	5.9	5.8	5.5
Air Force	3.6	2.0	2.1	1.7	1.9
EDTR PERCENT OF ALL MILITARY PROCUREMENT	13.5%	16.8%	18.1%	22.6%	25.6%
Army	10.1	9.5	12.4	15.2	15.0
Navy	9.1	12.0	15.5	17.8	23.0
Air Force	18.1	23.8	22.4	29.2	32.8
EDTR PERCENT OF ALL PROCUREMENT FROM EDUCATIONAL & NON-PROFIT INSTITUTIONS b/	NA	85.6%	72.9%	85.2%	83.4%
Army		69.2	51.6	67.2	37.3
Navy		96.8	97.3	97.1	97.6
Air Force		96.0	91.8	95.5	91.2
EDTR PERCENT OF ALL PROCUREMENT FROM BUSINESS FIRMS	13.5%	15.9%	17.1%	21.5%	24.6%
Army	10.1	8.1	10.8	13.7	14.1
Navy	9.1	11.0	14.3	16.7	21.6
Air Force	18.1	23.0	21.7	28.2	32.0

a/ For definitions and coverage, see Notes on Coverage.

b/ Prior to Fiscal Year 1957, data on Educational & Non-Profit Institutions were included in the data for "Business Firms for Work in the U. S."

NA Not Available

Table 8

**NET VALUE OF MILITARY PROCUREMENT ACTIONS FOR EXPERIMENTAL, DEVELOPMENTAL,
TEST AND RESEARCH WORK, AND FOR OTHER WORK, BY PROGRAM^{a/}**

Fiscal Years 1959 and 1960

Major Programs	EXPERIMENTAL, DEVELOPMENTAL, TEST & RESEARCH AWARDS				ALL OTHER CONTRACT AWARDS			
	Amount (\$000)		% of all Awards		Amount (\$000)		% of all Awards	
	FY 1959	FY 1960	FY 1959	FY 1960	FY 1959	FY 1960	FY 1959	FY 1960
TOTAL ^{b/}	<u>\$5,239,057</u>	<u>\$5,551,054</u>	<u>22.6%</u>	<u>25.6%</u>	<u>\$17,904,610</u>	<u>\$16,130,288</u>	<u>77.4%</u>	<u>74.4%</u>
EDUCATIONAL AND NON-PROFIT INSTITUTIONS	340,465	316,809	85.2	83.4	58,973	63,087	14.8	16.6
WITH BUSINESS FIRMS FOR WORK IN THE U.S. - TOTAL	<u>4,898,592</u>	<u>5,234,245</u>	<u>21.5</u>	<u>24.6</u>	<u>17,845,637</u>	<u>16,067,201</u>	<u>78.5</u>	<u>75.4</u>
MAJOR HARD GOODS (SUB TOTAL)	<u>3,873,921</u>	<u>4,773,969</u>	<u>25.1</u>	<u>32.2</u>	<u>11,565,955</u>	<u>10,034,225</u>	<u>74.9</u>	<u>67.8</u>
Aircraft	570,660	484,758	8.8	10.1	5,916,383	4,303,591	91.2	89.9
Missile Systems	2,421,749	3,254,373	53.9	65.3	2,068,591	1,729,363	46.1	34.7
Ships	113,975	157,069	10.4	15.6	980,818	852,602	89.6	84.4
Tank-Automotive	16,140	19,594	4.6	4.9	333,956	384,253	95.4	95.1
Weapons	32,492	24,505	17.4	20.3	154,505	96,250	82.6	79.7
Ammunition	71,239	99,507	20.0	20.9	285,197	376,140	80.0	79.1
Electronics and Communication Equipment	647,666	734,163	26.2	24.3	1,826,505	2,292,026	73.8	75.7
SERVICES	883,369	241,599	47.1	18.3	992,108	1,079,635	52.9	81.7
OTHER (SUB TOTAL)	<u>141,302</u>	<u>218,677</u>	<u>2.6</u>	<u>4.2</u>	<u>5,287,574</u>	<u>4,953,341</u>	<u>97.4</u>	<u>95.8</u>
Subsistence	133	537	*	0.1	490,718	468,197	100.0	99.9
Textile, Clothing and Equipage	2,558	3,493	1.4	2.0	175,096	173,368	96.6	98.0
Fuels and Lubricants	26,912	16,238	2.7	1.9	954,470	842,687	97.3	98.1
Miscellaneous Hard Goods	75,087	165,777	8.7	18.1	791,578	751,739	91.3	81.9
Construction	3,082	259	0.2	*	1,406,710	1,207,058	99.8	100.0
All Actions of Less Than \$10,000	33,530	32,373	2.2	2.1	1,469,002	1,510,292	97.8	97.9

^{a/} For definitions and coverage, see Notes on Coverage.

^{b/} Excludes awards for work outside the U. S., and also excludes intragovernmental orders.

* Less Than 0.05 percent.

AWARDS UNDER FORMALLY ADVERTISED AND NEGOTIATED CONTRACTS

Table 9.
NET VALUE OF MILITARY PROCUREMENT ACTIONS UNDER FORMALLY ADVERTISED AND
NEGOTIATED CONTRACTS, BY TYPE OF CONTRACTOR ^{a/}

Procurement Action Category	July 1958-June 1959				July 1959-June 1960			
	Total	Army	Navy	Air Force	Total	Army	Navy	Air Force
TOTAL	\$25,312,065	\$6,008,638	\$7,671,313	\$11,632,114	\$23,688,533	\$5,882,216	\$7,420,636	\$10,385,681
INTRAGOVERNMENTAL	758,347	248,148	141,219	368,980	780,875	256,265	154,319	370,291
ALL OTHER								
Formally Advertised	24,253,718	2,760,490	7,530,094	11,263,134	22,907,698	5,625,951	7,266,317	10,015,390
Negotiated	3,255,682	1,354,454	1,357,085	544,143	3,169,521	1,347,685	1,364,352	457,484
	21,298,036	4,406,036	6,173,009	10,718,991	19,738,137	4,278,266	5,901,965	9,557,906
FOR WORK OUTSIDE U. S.								
Formally Advertised	1,410,051	663,199	490,918	255,934	1,226,316	604,149	395,223	226,944
Negotiated	156,591	58,277	137,640	674	191,477	93,282	94,319	3,876
	1,243,460	604,922	383,278	255,260	1,034,839	510,867	300,904	223,068
EDUCATIONAL AND NON-PROFIT INSTITUTIONS								
Formally Advertised	322,438	140,226	97,849	161,363	379,896	111,275	125,527	143,094
Negotiated	271	181	0	90	111	12	15	81
	399,167	140,045	97,849	161,273	379,785	111,263	125,509	143,013
WITH BUSINESS FIRMS FOR WORK IN THE U. S.								
Formally Advertised	22,744,229	4,987,065	6,941,327	10,845,837	21,301,446	4,210,527	6,745,567	2,645,352
Negotiated	3,088,820	1,295,996	1,249,445	543,379	2,977,933	1,254,391	1,270,015	453,527
	19,655,409	3,661,069	5,691,882	10,302,458	18,323,513	3,656,136	5,475,552	9,191,825
Small Business Potential ^{b/}								
Formally Advertised	5,999,457	2,813,779	1,732,959	1,452,719	5,908,389	2,767,775	1,770,319	1,370,295
Negotiated	2,600,107	1,245,044	857,624	497,439	2,430,131	1,202,070	822,417	425,614
	3,399,350	1,568,735	875,335	955,280	3,478,258	1,565,705	967,902	944,651
Actions of \$10,000 or More Not Offered to Small Business								
Formally Advertised	16,744,772	2,143,266	2,208,368	9,323,118	15,393,057	2,142,752	4,975,248	8,275,057
Negotiated	488,713	50,952	391,821	45,940	547,862	52,321	487,598	27,883
	16,256,059	2,092,334	4,816,547	9,347,178	14,845,195	2,090,431	4,507,650	8,247,174
WITH SMALL BUSINESS FIRMS								
Formally Advertised	3,872,850	1,740,121	1,122,836	919,893	3,439,639	1,527,917	1,047,985	863,737
Negotiated	1,465,866	693,108	463,981	308,777	1,174,899	532,876	379,345	228,678
	2,316,984	1,047,013	658,855	611,116	2,264,740	995,041	668,640	601,059
SMALL BUSINESS PERCENT OF POTENTIAL								
Formally Advertised	63.15	61.8%	64.8%	63.3%	68.2%	55.2%	59.2%	63.0%
Negotiated	56.4	55.7	51.1	62.1	48.3	44.3	47.3	61.7
	68.2	66.7	75.3	64.0	65.1	63.6	69.1	63.6
FORMALLY ADVERTISED AS A PERCENT OF Total Except Intragovernmental Business Firms for Work in the U. S.	13.3%	23.5%	18.0%	4.8%	13.8%	24.0%	18.8%	4.6%
	13.6	26.1	18.0	5.0	14.0	25.5	18.8	4.7

^{a/} For definitions and coverage, see Notes on Coverage.

^{b/} All actions of less than \$10,000, and actions of \$10,000 or more offered to small business.

Table 10
NET VALUE OF MILITARY PROCUREMENT ACTIONS UNDER FORMALLY ADVERTISED AND NEGOTIATED CONTRACTS,
BY TYPE OF CONTRACTOR^{2/}

Fiscal Years 1951 - 1960

(Amounts in Millions)

Type of Contractor	FY 1951	FY 1952	FY 1953	FY 1954	FY 1955	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960
TOTAL	\$32,649	\$43,569	\$31,812	\$13,279	\$16,582	\$19,590	\$21,458	\$24,197	\$25,312	\$23,689
INTRAGOVERNMENTAL	1,064	768	572	420	541	434	462	531	758	781
ALL OTHER	<u>31,585</u>	<u>42,801</u>	<u>31,240</u>	<u>12,859</u>	<u>16,041</u>	<u>19,156</u>	<u>20,996</u>	<u>23,666</u>	<u>24,554</u>	<u>22,908</u>
Formally Advertised - Amount	NA	NA	NA	1,822	2,401	2,922	3,423	3,282	3,256	3,170
- Percent				14.2%	15.0%	15.1%	16.3%	13.9%	13.3%	13.8%
Negotiated - Amount	NA	NA	NA	11,037	13,640	16,234	17,573	20,384	21,298	19,738
- Percent				85.8%	85.0%	84.9%	83.7%	86.1%	86.7%	86.2%
FOR WORK OUTSIDE U. S.	<u>762</u>	<u>1,319</u>	<u>3,418</u>	<u>1,411</u>	<u>1,111</u>	<u>1,406</u>	<u>1,602</u>	<u>1,444</u>	<u>1,410</u>	<u>1,226</u>
Formally Advertised - Amount	NA	NA	NA	33	15	87	102	124	167	191
- Percent				2.3%	1.4%	6.2%	6.4%	11.4%	11.8%	15.6%
Negotiated - Amount	NA	NA	NA	1,378	1,096	1,319	1,500	1,280	1,243	1,035
- Percent				97.7%	98.6%	93.8%	93.6%	88.6%	88.2%	84.4%
EDUCATIONAL AND NON-PROFIT INSTITUTIONS b/	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>261</u>	<u>392</u>	<u>400</u>	<u>380</u>
Formally Advertised - Amount										
- Percent							0.1%	0.8%	0.1%	0.1%
Negotiated - Amount							261	392	400	380
- Percent							99.9%	99.2%	99.9%	99.9%
WITH BUSINESS FIRMS FOR WORK IN THE U. S.	<u>30,823</u>	<u>41,482</u>	<u>27,822</u>	<u>11,448</u>	<u>14,930</u>	<u>17,750</u>	<u>19,133</u>	<u>21,827</u>	<u>22,744</u>	<u>21,302</u>
Formally Advertised - Amount	3,720	4,479	3,089	1,789	2,385	2,815	3,321	3,115	3,089	2,978
- Percent	12.1%	10.8%	11.1%	15.6%	16.0%	15.9%	17.4%	14.3%	13.6%	14.0%
Negotiated - Amount	27,103	37,003	24,733	9,659	12,544	14,935	15,812	18,712	19,655	18,324
- Percent	87.9%	89.2%	88.9%	84.4%	84.0%	84.1%	82.6%	85.7%	86.4%	86.0%
WITH SMALL BUSINESS FIRMS	<u>6,436</u>	<u>7,066</u>	<u>4,608</u>	<u>2,902</u>	<u>3,214</u>	<u>3,472</u>	<u>3,783</u>	<u>3,729</u>	<u>3,783</u>	<u>3,440</u>
Formally Advertised - Amount	1,750	2,545	2,035	1,150	1,501	1,750	1,973	1,794	1,466	1,175
- Percent	26.0%	36.0%	44.2%	39.6%	46.7%	50.4%	52.2%	48.1%	38.6%	34.2%
Negotiated - Amount	4,637	4,521	2,573	1,752	1,713	1,725	1,810	1,935	2,317	2,265
- Percent	72.0%	64.0%	55.8%	60.4%	53.3%	49.6%	47.8%	51.9%	61.2%	65.8%

^{2/} For definitions and coverage, see Notes on Coverage.

^{3/} Prior to Fiscal Year 1957, data on educational and non-profit institutions were included in the data for "Business Firms for Work in the U. S."

^{4/} Less than \$500,000.

NA Not Available.

Table 11
**NET VALUE AND NUMBER OF MILITARY PROCUREMENT ACTIONS UNDER FORMALLY ADVERTISED AND
 NEGOTIATED CONTRACTS BY METHODS OF PROCUREMENT^{a/}**
 Fiscal Years 1959 and 1960

Method of Procurement	Net Value (\$ 000)				Number			
	July 1958-June 1959		July 1959-June 1960		July 1958-June 1959		July 1959-June 1960	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
TOTAL								
TOTAL	\$25,312,065		\$23,688,533		6,698,897		7,061,095	
INTRAGOVERNMENTAL	758,347		780,875		847,430		954,861	
ALL OTHER - TOTAL	24,553,718	100.0	22,907,658	100.0	5,851,467	100.0	6,106,234	100.0
FORMALLY ADVERTISED	3,255,682	13.3	3,169,521	13.8	283,220	4.8	273,256	4.5
NEGOTIATED WITH PRICE COMPETITION (Subtotal)	3,017,405	12.3	2,880,023	12.6	53,426	0.9	61,692	1.0
Small Business Restricted Advertising	301,568	1.2	335,989	1.5	5,807	0.1	5,876	0.1
Small Business and Labor Surplus Set-Asides b/	437,259	1.8	313,866	1.4	22,648	0.4	28,611	0.5
Other	2,278,586	9.3	2,230,232	9.7	24,771	0.4	27,205	0.4
NEGOTIATED PROCUREMENT OF \$2,500 OR LESS c/ (Price Competition Obtained on Actions of \$100 or More)	769,323	3.1	825,287	3.6	4,830,313	82.6	5,040,654	82.6
NEGOTIATED WITH ONE SOURCE g/	16,914,524	68.9	15,424,470	67.3	57,626	1.0	57,278	0.9
NEGOTIATED-COMPETITIVE STATUS UNKNOWN	596,784	2.4	608,357	2.7	626,882	10.7	673,354	11.0
ARMY								
TOTAL	\$ 6,008,638		\$ 2,882,216		2,865,072		2,234,512	
INTRAGOVERNMENTAL	248,148		256,265		384,088		407,208	
ALL OTHER - TOTAL	5,760,490	100.0	2,625,951	100.0	2,480,984	100.0	2,527,304	100.0
FORMALLY ADVERTISED	1,354,454	23.5	1,347,685	24.0	101,068	4.1	99,198	3.9
NEGOTIATED WITH PRICE COMPETITION (Subtotal)	1,160,131	20.2	1,070,359	19.0	29,220	1.2	31,235	1.2
Small Business Restricted Advertising	129,902	2.3	114,710	2.0	2,585	0.1	3,980	0.1
Small Business and Labor Surplus Set-Asides b/	190,244	3.3	112,830	2.0	10,265	0.4	12,164	0.5
Other	839,985	14.6	842,819	15.0	16,370	0.7	17,091	0.6
NEGOTIATED PROCUREMENT OF \$2,500 OR LESS c/ (Price Competition Obtained on Actions of \$100 or More)	340,254	5.9	358,042	6.4	1,996,766	80.4	2,034,215	80.5
NEGOTIATED WITH ONE SOURCE g/	2,558,898	44.4	2,504,356	44.5	14,310	0.6	14,652	0.6
NEGOTIATED-COMPETITIVE STATUS UNKNOWN	346,753	6.0	345,509	6.1	339,620	13.7	348,004	13.8

a/ For definitions and coverage, see Notes on Coverage.

b/ Excludes set-asides accomplished through small business restricted advertising.

c/ Within U. S.

d/ A sample taken in Fiscal Year 1959 indicated that at least 83% of this procurement followed design or technical competition.

Table II (Concluded)

Method of Procurement	Net Value (\$ 000)				Number			
	July 1958-June 1959		July 1959-June 1960		July 1958-June 1959		July 1959-June 1960	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
NAVY								
TOTAL	\$ 7,671,313		\$ 7,420,636		2,075,464		2,283,664	
INTRAGOVERNMENTAL	141,219		154,319		194,534		258,636	
ALL OTHER - TOTAL	7,530,094	100.0	7,266,317	100.0	1,880,930	100.0	2,025,028	100.0
FORMALLY ADVERTISED	1,357,085	18.0	1,364,352	18.8	74,486	4.0	72,601	3.6
NEGOTIATED WITH PRICE COMPETITION (Subtotal)	1,223,974	16.3	1,207,979	16.6	10,335	0.5	12,522	0.6
Small Business Restricted Advertising	59,271	0.8	69,279	0.9	1,211	-	1,466	0.1
Small Business and Labor Surplus Set-Asides b/	215,930	2.9	188,428	2.6	5,326	0.3	6,028	0.3
Other	948,773	12.6	950,272	13.1	3,798	0.2	5,028	0.2
NEGOTIATED PROCUREMENT OF \$2,500 OR LESS c/ (Price Competition Obtained on Action of \$100 or More)	207,815	2.8	243,325	3.3	1,680,846	89.4	1,816,079	89.7
NEGOTIATED WITH ONE SOURCE d/	4,647,158	61.7	4,350,091	59.9	16,972	0.9	16,297	0.8
NEGOTIATED-COMPETITIVE STATUS UNKNOWN	94,062	1.2	100,570	1.4	98,291	5.2	107,529	5.3
AIR FORCE								
TOTAL	\$11,632,114		\$10,385,681		1,758,361		1,842,919	
INTRAGOVERNMENTAL	368,980		370,291		268,808		289,017	
ALL OTHER - TOTAL	11,263,134	100.0	10,015,390	100.0	1,489,553	100.0	1,553,902	100.0
FORMALLY ADVERTISED	544,143	4.8	457,484	4.6	107,666	7.2	101,457	6.5
NEGOTIATED WITH PRICE COMPETITION (Subtotal)	633,300	5.6	603,685	6.0	13,871	0.9	17,935	1.2
Small Business Restricted Advertising	112,327	1.0	151,922	1.5	2,011	0.1	2,430	0.2
Small Business and Labor Surplus Set-Asides b/	31,085	0.3	12,622	0.1	7,257	0.5	10,419	0.7
Other	489,888	4.3	437,141	4.4	4,603	0.3	5,086	0.3
NEGOTIATED PROCUREMENT OF \$2,500 OR LESS c/ (Price Competition Obtained on Action of \$100 or More)	221,254	2.0	223,920	2.2	1,152,701	77.4	1,190,360	76.6
NEGOTIATED WITH ONE SOURCE d/	9,708,468	86.2	8,570,023	85.6	26,344	1.8	26,329	1.7
NEGOTIATED-COMPETITIVE STATUS UNKNOWN	155,969	1.4	162,278	1.6	188,971	12.7	217,821	14.0

a/ For definitions and coverage, see Notes on Coverage

b/ Excludes set-asides accomplished through small business restricted advertising.

c/ Within U. S.

d/ A sample taken in Fiscal Year 1959 indicated that at least 83% of this procurement followed design or technical competition.

e/ Less than 0.05 per cent.

Table 12
NET VALUE OF MILITARY PROCUREMENT ACTIONS UNDER FORMALLY ADVERTISED AND NEGOTIATED CONTRACTS
BY NEGOTIATION AUTHORITY ^{a/}

Fiscal Years 1959 and 1960

(Amount in Thousands)

Negotiation Authority	July 1958-June 1959						July 1959-June 1960					
	Total		Army	Navy	Air Force	Total		Army	Navy	Air Force		
	Amount	Percent	Amount	Amount	Amount	Amount	Percent	Amount	Amount	Amount		
ALL ACTIONS, TOTAL	\$25,312,065		\$6,008,538	\$7,671,313	\$11,632,114	\$23,688,533		\$5,882,216	\$7,420,636	\$10,385,681		
INFRAGOVERNMENTAL	758,347		248,148	141,219	368,980	780,875		256,265	154,319	370,291		
FORMALLY ADVERTISED	3,255,682		1,354,454	1,357,085	544,143	3,169,521		1,347,685	1,364,352	457,484		
NEGOTIATED ^{b/}	21,298,036	100.0%	4,406,036	5,173,009	10,718,921	19,738,137	100.0%	4,278,266	5,501,965	9,557,906		
Section 2304(a)												
(1) National Emergency (Sub-Total)	473,606	2.2	142,277	151,144	178,185	419,861	2.2	150,083	116,441	153,364		
(a) Labor Surplus Area & Industry Set-Aside	121,436	0.6	85,759	18,785	16,942	37,342	0.2	29,659	4,575	3,108		
(b) Small Business Set-Aside (Unilateral)	61,280	0.3	30,606	4,655	26,109	60,391	0.3	19,261	5,320	35,810		
(c) Disaster Area Set-Aside ^{c/}	-	-	-	-	-	-	-	-	-	-		
(d) Experimental, Developmental or Research Not More Than \$100,000	250,590	1.2	89,024	74,359	86,707	289,805	1.5	101,604	80,022	108,179		
(e) Modifications Authorized by Existing Contract Negotiated Prior to January 1, 1956	40,750	0.1	(-63,112)	55,345	48,517	32,323	0.2	(-1441)	26,497	6,267		
(2) Public Emergency	199,218	0.9	41,140	81,283	76,799	143,924	0.7	17,200	36,742	89,862		
(3) Purchases Not More Than \$2,500	769,323	3.6	340,254	207,815	221,254	829,287	4.2	358,042	243,325	223,920		
(4) Personal or Professional Services	81,665	0.4	42,387	13,492	25,786	58,563	0.3	24,559	11,218	22,786		
(5) Services of Educational Institutions	335,818	1.6	89,814	84,799	161,205	298,645	1.5	60,196	113,068	125,941		
(6) Purchases Outside U. S.	1,117,228	5.2	594,554	319,539	203,135	940,321	4.8	505,092	257,313	177,916		
(7) Medicines or Medical Supplies	33,959	0.2	408	33,018	533	53,228	0.3	622	51,428	1,178		
(8) Supplies Purchased for Authorized Resale	128,555	0.6	99,514	11,769	17,272	135,966	0.7	107,557	7,796	20,613		
(9) Perishable or Non-Perishable Subsistence	480,096	2.3	474,141	1,986	3,969	441,764	2.2	436,632	2,674	2,458		
(10) Impractical to Secure Competition by Formal Advertising	3,966,992	18.6	481,342	1,298,439	2,187,211	3,323,626	16.8	479,158	990,338	1,854,130		
(11) Experimental, Developmental, Test or Research	4,027,675	18.9	487,228	503,657	3,036,790	4,390,450	22.2	556,252	635,961	3,198,237		
(12) Classified Purchases	630,148	3.0	100,733	517,293	12,122	964,087	4.9	90,234	874,281	(-)428		
(13) Technical Equipment Requiring Standardization and Interchangeability of Parts	12,897	*	5,515	7,286	96	38,014	0.2	25,252	12,762			
(14) Technical or Specialized Supplies Requiring Substantial Initial Investment or Extended Period of Preparation for Manufacture	7,022,201	33.0	284,379	2,308,503	4,428,919	6,034,420	30.6	464,612	2,075,603	3,494,205		
(15) Negotiation After Advertising	2,268	*	187	939	1,142	75	*	-	24	51		
(16) Purchases to Keep Facilities Available in the Interest of National Defense or Industrial Mobilization	1,345,573	6.3	944,096	362,521	38,956	973,761	4.9	741,689	185,529	46,543		
(17) Otherwise Authorized by Law	670,814	3.2	278,067	287,126	125,621	696,145	3.5	260,966	287,489	147,690		

^{a/} For definitions and coverage, see Notes on Coverage.^{b/} Statutory authority for negotiation is contained in 10 U.S.C. 2304(a) which specifies 17 circumstances when negotiation is permitted.^{c/} No disaster areas were designated by the President for procurement purposes during fiscal years 1959 and 1960.

* Less than 0.05%.

Table 13
**NUMBER OF MILITARY PROCUREMENT ACTIONS UNDER FORMALLY ADVERTISED AND NEGOTIATED CONTRACTS,
 BY NEGOTIATION AUTHORITY^{1/}**

Fiscal Years 1959 and 1960

Negotiation Authority	July 1958-June 1959					July 1959-June 1960				
	Total		Army	Navy	Air Force	Total		Army	Navy	Air Force
	Number	Percent	Number	Number	Number	Number	Percent	Number	Number	Number
ALL ACTIONS, TOTAL	6,698,897		2,865,072	2,075,464	1,758,361	7,061,095		2,234,512	2,283,664	1,842,919
INTRAGOVERNMENTAL	847,430		384,088	194,534	268,808	954,861		407,208	258,636	289,017
FORMALLY ADVERTISED	263,220		101,068	74,486	107,666	273,256		99,198	72,601	101,457
NEGOTIATED b/	5,568,247	100.0%	2,379,916	1,806,444	1,381,687	5,832,978	100.0%	2,488,106	1,952,427	1,452,445
Section 2304(a)										
(1) National Emergency (Sub-Total)	24,930	0.5	10,358	6,858	7,714	28,818	0.5	12,652	6,332	2,834
(a) Labor Surplus Area & Industry Set-Aside	2,262	0.1	1,417	573	272	1,395	0.02	560	159	676
(b) Small Business Set-Aside (Unilateral)	9,659	0.2	3,999	1,588	4,072	14,019	0.3	6,428	1,693	5,898
(c) Disaster Area Set-Aside c/	-	-	-	-	-	-	-	-	-	-
(d) Experimental, Developmental or Research Not More Than \$100,000	11,248	0.2	4,616	3,927	2,705	12,752	0.2	5,555	4,203	2,994
(e) Modifications Authorized by Existing Contract Negotiated Prior to January 1, 1956	1,761	*	326	770	665	652	*	109	277	266
(2) Public Exigency	7,832	0.1	1,577	3,719	2,536	10,310	0.2	414	3,025	6,871
(3) Purchases Not More Than \$2,500	4,830,313	86.8	1,996,766	1,680,846	1,152,701	5,040,654	86.4	2,034,215	1,816,079	1,190,360
(4) Personal or Professional Services	6,877	0.1	2,965	2,329	1,583	4,168	*	1,600	489	2,079
(5) Services of Educational Institutions	6,805	0.1	1,801	1,170	3,834	6,768	0.1	1,514	1,244	4,010
(6) Purchases Outside U. S.	492,131	8.9	280,424	65,891	145,816	536,999	9.2	294,515	78,038	164,446
(7) Medicines or Medical Supplies	1,538	*	73	1,061	404	2,550	*	99	1,716	735
(8) Supplies Purchased for Authorized Resale	29,385	0.5	13,913	9,215	6,257	27,799	0.5	14,273	5,686	7,840
(9) Perishable or Non-Perishable Subsistence	44,432	0.8	40,124	1,705	2,603	39,727	0.7	2,431	2,431	928
(10) Impractical to Secure Competition by Formal Advertising	90,667	1.6	20,838	23,689	46,140	96,395	1.7	20,800	25,458	50,137
(11) Experimental, Developmental, Test or Research	4,280	0.1	800	1,400	2,088	5,433	0.1	949	1,585	2,899
(12) Classified Purchases	1,455	*	724	652	79	1,254	*	407	842	5
(13) Technical Equipment Requiring Standardization and Interchangeability of Parts	389	*	11	377	1	318	*	68	250	-
(14) Technical or Specialized Supplies Requiring Substantial Initial Investment or Extended Period of Preparation for Manufacture	6,808	0.1	537	1,755	4,716	8,947	0.2	1,313	2,332	5,302
(15) Negotiation After Advertising	19	*	2	10	7	10	*	-	3	7
(16) Purchases to Keep Facilities Available in the Interest of National Defense or Industrial Mobilization	2,300	0.1	1,829	438	33	2,063	*	1,576	432	55
(17) Otherwise Authorized by Law	18,078	0.3	7,374	5,329	5,375	20,765	0.4	7,343	6,485	6,937

^{1/} For definitions and coverage, see Notes on Coverage.
^{2/} Statutory authority for negotiation is contained in 10 U.S.C. 2304(e), which specifies 17 circumstances when negotiation is permitted.
^{3/} No disaster areas were designated by the President for procurement purposes during fiscal years 1959 and 1960.
 * Less than 0.05%

Table 14
**NET VALUE AND NUMBER OF MILITARY PROCUREMENT ACTIONS UNDER FORMALLY ADVERTISED AND NEGOTIATED CONTRACTS,
 BY NEGOTIATION AUTHORITY^{1/}**
 Fiscal Years 1957 - 1960

Negotiation Authority	Net Value (\$ 000)								Number							
	FY 1957		FY 1958		FY 1959		FY 1960		FY 1957		FY 1958		FY 1959		FY 1960	
	Amount	%	Amount	%	Amount	%	Amount	%	Number	%	Number	%	Number	%	Number	%
ALL ACTIONS, TOTAL	\$21,477,485		\$24,196,277		\$25,312,065		\$23,688,533		4,228,726		5,133,704		6,698,897		7,061,095	
INTRAGOVERNMENTAL	426,389		531,179		758,347		780,875		601,821		673,509		847,430		954,861	
FORMALLY ADVERTISED	3,422,662		3,281,856		3,255,682		3,169,521		315,866		275,041		283,220		273,256	
NEGOTIATED b/	17,572,374	100.0*	20,343,942	100.0*	21,298,036	100.0*	19,738,137	100.0*	4,011,029	100.0*	4,183,154	100.0*	5,568,247	100.0*	5,832,978	100.0*
Section 2304(a)																
(1) National Emergency (Sub-Total)	2,056,026	11.7	1,252,494	6.1	473,606	2.2	419,861	2.2	53,285	1.3	25,921	0.5	24,930	0.4	28,818	0.5
(a) Labor Surplus Area & Industry Set-Aside	8,266		35,308	0.2	121,436	0.5	37,342	0.2	*		830	*	2,352	*	1,359	*
(b) Small Business Set-Aside (Unilateral)	276,646	1.6	196,899	0.9	61,280	0.3	60,391	0.3	5,815	0.1	9,715	0.2	9,659	0.2	14,019	0.3
(c) Disaster Area Set-Aside c/	97	*	12	*	0	0.0	0	0.0	13	*	3	*	0	0.0	0	0.0
(d) Experimental, Developmental or Research Less than \$100,000	201,025	1.2	224,651	1.1	250,090	1.2	289,805	1.5	8,465	0.2	9,946	0.2	11,248	0.2	12,752	0.2
(e) Modification Authorized by Existing Contract Negotiated Prior to January 1, 1956	1,569,990	8.9	794,628	3.9	40,750	0.2	32,323	0.2	36,766	1.0	5,427	0.1	1,761	*	652	*
(2) Public Emergency	212,596	1.2	105,652	0.5	199,218	0.9	143,924	0.7	12,235	0.3	4,844	0.1	7,832	0.2	10,310	0.2
(3) Purchases Not More Than \$2,500 d/	463,279	2.6	602,112	3.0	769,323	3.6	825,287	4.2	3,328,414	83.0	3,658,668	87.5	4,830,333	86.8	5,040,654	86.4
(4) Personal or Professional Services	57,147	0.3	59,759	0.3	81,665	0.4	58,563	0.3	6,281	0.2	5,301	0.2	6,877	0.1	4,168	0.1
(5) Services of Educational Institutions	248,941	1.4	311,040	1.5	335,818	1.6	258,645	1.5	6,967	0.2	6,733	0.2	6,805	0.1	6,768	0.1
(6) Purchases Outside the U. S.	1,262,533	7.2	1,169,689	5.7	1,117,228	5.2	940,321	4.8	389,880	9.7	296,339	7.1	492,131	8.9	536,999	9.2
(7) Medicines or Medical Supplies	12,032	0.1	16,821	0.1	33,959	0.2	53,228	0.3	3,252	0.1	1,320	*	1,538	*	2,550	*
(8) Supplies Purchased for Authorized Resale:	✓ 133,726	0.8	119,446	0.6	128,555	0.6	135,966	0.7	44,474	1.1	32,041	0.8	29,385	0.5	27,759	0.5
(9) Perishable or Non-Perishable Subsistence e/	595,276	3.4	492,258	2.4	480,096	2.3	441,764	2.2	74,170	1.8	52,608	1.3	44,432	0.8	39,727	0.7
(10) Impracticable to Secure Competition by Formal Advertising	3,482,712	19.6	3,644,404	17.9	3,966,992	18.6	3,323,626	16.8	82,160	2.0	79,573	1.9	90,667	1.7	96,395	1.7
(11) Experimental, Developmental, Test or Research Classified Purchases	2,265,538	12.9	2,961,266	14.6	4,027,675	18.9	4,390,450	22.2	2,604	0.1	3,799	0.1	4,288	0.1	5,433	0.1
(12) Technical Equipment Requiring Standardization and Interchangeability of Parts	518,985	3.0	315,018	1.5	630,148	3.0	634,097	4.9	756	*	1,290	*	1,455	*	1,254	*
(13) Technical or Specialized Supplies Requiring Substantial Initial Investment or Extended Period of Preparation for Manufacture	48,213	0.3	9,843	*	12,897	0.1	38,014	0.2	289	*	270	*	389	*	318	*
(14) Negotiation After Advertising	4,907,106	27.9	7,439,560	36.5	7,022,201	33.0	6,034,420	30.6	2,525,16	0.1	4,873	0.1	6,808	0.1	8,947	0.2
(15) Purchases to Keep Facilities Available in the Interest of National Defense or Industrial Mobilization	753	*	1,006	*	2,268	*	75	*	16	*	49	*	19	*	10	*
(16) Otherwise Authorized by Law	1,254,968	7.1	1,442,136	7.1	1,345,573	6.3	973,761	4.9	1,102	*	2,061	0.1	2,300	*	2,063	*
(17) Statutory Authority for negotiation is contained in 10 U. S. C. 2304(a), which specified 17 circumstances when negotiation is permitted.	82,543	0.5	446,438	2.2	670,814	3.1	696,145	3.5	2,519	0.1	7,464	0.2	18,078	0.3	20,765	0.4

1/ For definitions and coverage, see Notes on Coverage.
 2/ Statutory authority for negotiation is contained in 10 U. S. C. 2304(a), which specified 17 circumstances when negotiation is permitted.
 3/ No disaster areas were designated by the President for procurement purposes after fiscal year 1956. Figures shown relate to modifications of contracts awarded in fiscal year 1956.
 4/ Prior to passage of Public Law 85-800 (August 28, 1958) Authority 3 applied only to procurement actions of not more than \$1,000, and actions of \$1,000 - \$2,500 were included as a part of Authority 1.
 5/ For comparative purposes, all actions of \$2,500 or less are shown under Authority 3.
 6/ Prior to passage of Public Law 85-800 (August 28, 1958) Authority 9 applied only to procurement of perishable subsistence. Prior to this time procurement of non-perishable subsistence was included as a part of Authority 1. For comparative purposes all perishable and non-perishable subsistence procurement actions are shown under Authority 9.
 * Less than 0.05 percent.

**AWARDS BY TYPE OF CONTRACT
PRICING PROVISION**

Table 15
NET VALUE AND NUMBER OF MILITARY PROCUREMENT ACTIONS
BY TYPE OF CONTRACT PRICING PROVISION^{a/}

Fiscal Years 1959 and 1960

Type of Pricing Provision	Net Value (\$ 000)				Number			
	July 1958-June 1959		July 1959-June 1960		July 1958-June 1959		July 1959-June 1960	
	Amount	%	Amount	%	Number	%	Number	%
TOTAL								
GRAND TOTAL	\$25,312,065		\$23,688,533		6,698,897		7,061,095	
INTRAGOVERNMENTAL ACTIONS OF LESS THAN \$10,000 ^{b/}	758,347 1,680,383		780,875 1,726,172		847,430 5,730,723		954,861 5,988,244	
ACTIONS OF \$10,000 OR MORE ^{b/}	22,873,332	100.0%	21,181,486	100.0%	120,744	100.0%	117,990	100.0%
FIXED PRICE TYPE, TOTAL	13,520,289	59.1	12,159,763	57.4	102,144	84.6	97,735	82.8
Firm	7,496,601	32.8	6,645,815	31.4	87,413	72.4	84,690	71.8
Redeterminable	1,070,589	4.7	1,298,138	6.1	4,398	3.6	3,320	2.8
Incentive	3,508,293	15.3	2,879,199	13.6	6,480	5.4	5,569	4.7
Escalation	1,442,806	6.3	1,336,611	6.3	3,893	3.2	4,156	3.5
COST REIMBURSEMENT TYPE, TOTAL	2,353,046	40.9	2,021,723	42.6	18,600	15.4	20,255	17.2
No Fee	686,581	3.0	466,546	2.2	4,328	3.6	4,011	3.4
Fixed Fee	7,836,391	34.3	7,803,469	36.8	12,371	10.2	14,278	12.1
Incentive Fee	741,247	3.2	672,899	3.2	560	0.5	674	0.6
Time and Materials	76,701	0.3	64,449	0.3	1,126	0.9	1,089	0.9
Labor Hour	12,126	0.1	14,360	0.1	215	0.2	203	0.2
ARMY								
GRAND TOTAL	\$ 6,008,638		\$ 5,882,216		2,865,072		2,934,512	
INTRAGOVERNMENTAL ACTIONS OF LESS THAN \$10,000 ^{b/}	248,148 799,274		256,265 806,137		384,088 2,433,813		407,208 2,482,152	
ACTIONS OF \$10,000 OR MORE ^{b/}	4,961,216	100.0%	4,819,814	100.0%	47,171	100.0%	45,152	100.0%
FIXED PRICE TYPE, TOTAL	3,161,683	63.7	3,101,920	64.4	41,477	87.8	38,931	86.2
Firm	2,792,916	56.3	2,541,682	52.8	39,284	83.3	36,713	81.3
Redeterminable	325,183	6.5	510,269	10.6	1,614	3.4	1,519	3.4
Incentive	562	*	0	0.0	14	*	0	0.0
Escalation	43,022	0.9	49,969	1.0	525	1.1	699	1.5
COST REIMBURSEMENT TYPE, TOTAL	1,799,533	36.3	1,717,894	35.6	5,734	12.2	6,221	13.8
No Fee	192,654	3.9	125,975	2.6	1,518	3.2	1,213	2.7
Fixed Fee	1,575,634	31.8	1,558,252	32.3	3,752	8.0	4,489	9.9
Incentive Fee	-	0.0	247	*	0	0.0	1	*
Time and Materials	21,425	0.4	21,542	0.4	284	0.6	350	0.8
Labor Hour	9,820	0.2	12,778	0.3	180	0.4	168	0.4

^{a/} For definitions and coverage, see Notes on Coverage.

^{b/} Except Intragovernmental.

* Less than 0.05 percent

Table 15 (Concluded)

Type of Pricing Provision	Net Value (\$ 000)				Number			
	July 1958-June 1959		July 1959-June 1960		July 1958-June 1959		July 1959-June 1960	
	Amount	%	Amount	%	Number	%	Number	%
NAVY								
GRAND TOTAL	\$ 7,671,311		\$ 7,420,635		2,075,464		2,283,664	
INTRAGOVERNMENTAL ACTIONS OF LESS THAN \$10,000 ^{b/}	141,219 402,738		154,319 440,644		194,534 1,847,043		258,636 1,990,769	
ACTIONS OF \$10,000 OR MORE ^{b/}	7,127,356	100.0%	6,825,672	100.0%	33,887	100.0%	14,232	100.0%
FIXED PRICE TYPE, TOTAL	5,263,762	73.9	4,796,405	70.3	28,258	85.5	28,889	84.4
Firm	2,678,863	37.6	2,174,165	31.9	22,954	67.7	23,617	69.0
Redeterminable	376,109	5.3	453,776	6.7	863	2.6	571	1.7
Incentive	824,659	11.6	395,412	13.1	2,036	6.0	1,570	4.6
Escalation	1,384,131	19.4	1,272,052	18.6	3,107	9.2	3,131	9.1
COST REIMBURSEMENT TYPE, TOTAL	1,863,594	26.1	2,029,267	29.7	4,929	14.5	5,350	15.6
No Fee	129,742	1.8	105,590	1.5	1,111	3.3	1,136	3.3
Fixed Fee	1,646,773	23.1	1,868,797	27.4	3,676	10.8	4,098	12.0
Incentive Fee	82,447	1.2	52,132	0.8	4	*	*	*
Time and Materials	2,796	*	1,580	*	123	0.4	100	0.3
Labor Hour	1,836	*	1,168	*	15	*	14	*
AIR FORCE								
GRAND TOTAL	\$11,632,114		\$10,385,681		1,728,361		1,842,919	
INTRAGOVERNMENTAL ACTIONS OF LESS THAN \$10,000 ^{b/}	368,980 478,371		370,291 479,390		268,808 1,449,867		289,017 1,515,303	
ACTIONS OF \$10,000 OR MORE ^{b/}	10,784,763	100.0%	9,536,000	100.0%	39,686	100.0%	38,592	100.0%
FIXED PRICE TYPE, TOTAL	5,094,844	47.2	4,261,438	44.7	31,749	80.0	29,215	77.5
Firm	2,026,822	18.8	1,929,968	20.2	25,175	63.4	24,360	63.1
Redeterminable	369,297	3.4	334,093	3.5	1,883	4.7	1,230	3.2
Incentive	2,683,072	24.9	1,982,787	20.8	4,430	11.2	3,999	10.4
Escalation	15,653	0.1	14,590	0.2	261	0.7	326	0.8
COST REIMBURSEMENT TYPE, TOTAL	5,689,919	52.8	5,274,562	55.3	7,937	20.0	8,684	22.5
No Fee	364,185	3.4	235,881	2.5	1,699	4.3	1,662	4.3
Fixed Fee	4,613,984	42.8	4,376,420	45.9	4,943	12.4	5,691	14.7
Incentive Fee	698,800	6.1	620,520	6.5	556	1.4	671	1.7
Time and Materials	52,480	0.5	41,327	0.4	719	1.8	639	1.7
Labor Hour	470	*	414	*	20	0.1	21	0.1

^{b/} For definitions and coverage, see Notes on Coverage.
^{c/} Except intragovernmental.
* Less than 0.05 percent.

Table 16
NET VALUE OF MILITARY PROCUREMENT ACTIONS
BY TYPE OF CONTRACT PRICING PROVISION^{a/}

Fiscal Years 1951 - 1960

Type of Pricing Provision	FISCAL YEARS									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
	Net Value (\$ 000)									
TOTAL ^{b/}	<u>\$21,458,131</u>	<u>\$34,027,996</u>	<u>\$29,285,024</u>	<u>\$10,941,854</u>	<u>\$13,661,308</u>	<u>\$16,101,941</u>	<u>\$17,997,053</u>	<u>\$22,161,627</u>	<u>\$22,873,335</u>	<u>\$21,181,486</u>
FIXED PRICE TYPE, TOTAL	<u>18,736,133</u>	<u>27,953,710</u>	<u>23,358,219</u>	<u>7,707,753</u>	<u>10,365,840</u>	<u>11,220,693</u>	<u>11,995,425</u>	<u>13,388,816</u>	<u>13,520,289</u>	<u>12,159,763</u>
Firm	9,426,234	10,128,940	9,307,381	4,157,793	5,418,631	5,859,400	6,360,956	6,168,679	7,498,601	6,645,815
Redeterminable	7,206,455	13,122,675	6,368,482	639,040	1,596,461	1,599,461	1,548,113	1,630,271	1,070,589	1,298,138
Incentive	1,951,457	4,079,848	7,029,516	2,756,136	3,124,376	3,096,450	3,210,857	4,253,712	3,508,293	2,879,199
Escalation	151,987	622,247	652,840	154,784	107,258	668,382	875,499	1,336,154	1,442,806	1,336,611
COST REIMBURSEMENT TYPE, TOTAL	<u>2,721,998</u>	<u>6,074,286</u>	<u>5,926,805</u>	<u>3,234,101</u>	<u>3,295,468</u>	<u>4,881,248</u>	<u>6,001,628</u>	<u>8,772,811</u>	<u>9,353,046</u>	<u>9,021,723</u>
No Fee	855,019	1,523,065	482,299	288,797	363,371	626,198	338,635	616,629	2,353,046	2,021,723
Fixed Fee	1,852,046	4,509,585	4,779,868	2,606,666	2,693,335	3,887,588	5,380,975	7,363,218	686,581	466,546
Incentive Fee	-	-	631,036	277,121	193,408	303,759	209,296	703,175	7,836,391	7,803,469
Time and Materials ^{c/}	14,933	41,636	33,802	61,517	45,354	63,703	72,722	89,789	741,247	672,899
									88,827	78,809
	Percent									
Total ^{b/}	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
FIXED PRICE TYPE, TOTAL	<u>87.3</u>	<u>82.1</u>	<u>79.8</u>	<u>70.2</u>	<u>75.9</u>	<u>69.7</u>	<u>66.6</u>	<u>60.4</u>	<u>59.1</u>	<u>57.4</u>
Firm	43.9	29.8	31.8	38.0	39.7	36.4	35.3	27.8	32.8	31.4
Redeterminable	33.6	38.5	21.8	5.9	12.5	9.9	8.6	7.4	4.7	6.1
Incentive	9.1	12.0	24.0	25.2	22.9	19.2	17.8	19.2	15.3	13.6
Escalation	0.7	1.8	2.2	1.4	0.8	4.2	4.9	6.0	6.3	6.3
COST REIMBURSEMENT TYPE, TOTAL	<u>12.7</u>	<u>17.9</u>	<u>20.2</u>	<u>29.5</u>	<u>24.1</u>	<u>30.3</u>	<u>33.4</u>	<u>39.6</u>	<u>40.9</u>	<u>42.6</u>
No Fee	4.0	4.5	1.6	2.6	2.7	3.9	1.9	2.8	3.0	2.2
Fixed Fee	8.6	13.3	16.3	23.8	19.7	24.1	29.9	33.2	34.3	36.8
Incentive Fee	-	-	2.2	2.5	1.4	1.9	1.2	3.2	3.2	3.2
Time and Materials ^{c/}	0.1	0.1	0.1	0.6	0.3	0.4	0.4	0.4	0.4	0.4

^{a/} For definitions and coverage, see Notes on Coverage. Excludes data for the Armed Services Petroleum Procurement Agency (ASPPA) from July 1950 thru December 1956, but includes data for the Military Petroleum Supply Agency, the successor to ASPPA, beginning January 1, 1957. Excludes Army procurement overseas prior to fiscal year 1958, and also excludes some Navy letters of intent in fiscal years 1951 and 1952 for which type of pricing provision was not determined.

^{b/} Includes actions of \$10,000 or more except in fiscal year 1951 when Navy actions of \$5,000 or more and Army actions of \$100,000 or more were included.

^{c/} Includes Labor-Hour contracts.

Table 17
NUMBER OF MILITARY PROCUREMENT ACTIONS
BY TYPE OF CONTRACT PRICING PROVISIONS^{a/}

Fiscal Years 1952 - 1960

Type of Pricing Provision	FISCAL YEARS									
	1952	1953	1954	1955	1956	1957	1958	1959	1960	
	Number									
Total ^{b/}	<u>114,993</u>	<u>93,125</u>	<u>75,596</u>	<u>76,589</u>	<u>84,333</u>	<u>95,441</u>	<u>108,269</u>	<u>120,744</u>	<u>117,990</u>	
FIXED PRICE TYPE, TOTAL	<u>109,326</u>	<u>87,718</u>	<u>68,866</u>	<u>68,063</u>	<u>73,000</u>	<u>81,277</u>	<u>91,305</u>	<u>102,144</u>	<u>97,735</u>	
Firm	94,502	72,356	59,867	60,329	63,110	70,921	78,244	87,413	84,690	
Redeterminable	9,497	7,498	6,863	3,829	3,816	3,981	4,562	4,358	3,320	
Incentive	592	1,239	922	2,538	2,511	3,662	4,505	6,480	5,569	
Escalation	4,735	6,625	1,214	1,367	3,563	2,713	3,994	3,893	4,156	
COST REIMBURSEMENT TYPE, TOTAL	<u>5,667</u>	<u>5,407</u>	<u>6,730</u>	<u>8,526</u>	<u>11,333</u>	<u>14,164</u>	<u>16,964</u>	<u>18,600</u>	<u>20,255</u>	
No Fee	2,191	1,905	2,413	2,794	3,371	4,321	4,748	4,328	4,011	
Fixed Fee	3,158	2,981	3,652	5,204	7,217	8,799	10,792	12,371	14,278	
Incentive Fee	-	164	222	180	146	111	214	560	674	
Time and Materials ^{c/}	318	357	443	408	599	933	1,210	1,341	1,292	
	Percent									
TOTAL ^{b/}	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
FIXED PRICE TYPE, TOTAL	<u>95.1</u>	<u>94.2</u>	<u>91.1</u>	<u>88.9</u>	<u>86.5</u>	<u>85.2</u>	<u>84.3</u>	<u>84.6</u>	<u>82.8</u>	
Firm	82.2	77.7	79.2	78.8	74.8	74.3	72.3	72.4	71.8	
Redeterminable	8.3	8.1	9.1	5.0	4.5	4.2	4.2	3.6	2.8	
Incentive	0.5	1.3	1.2	3.3	3.0	3.8	4.1	5.4	4.7	
Escalation	4.1	7.1	1.6	1.8	4.2	2.9	3.7	3.2	3.5	
COST REIMBURSEMENT TYPE, TOTAL	<u>4.9</u>	<u>5.8</u>	<u>8.9</u>	<u>11.1</u>	<u>13.5</u>	<u>14.8</u>	<u>15.7</u>	<u>15.4</u>	<u>17.2</u>	
No Fee	1.9	2.0	3.2	3.6	4.0	4.5	4.4	3.6	3.4	
Fixed Fee	2.7	3.2	4.8	6.8	8.6	9.2	10.0	10.2	12.1	
Incentive Fee	-	0.2	0.3	0.2	0.2	0.1	0.2	0.5	0.6	
Time and Materials ^{c/}	0.3	0.4	0.6	0.5	0.7	1.0	1.1	1.1	1.1	

^{a/} For definitions and coverage, see Notes on Coverage. Excludes data for the Armed Services Petroleum Procurement Agency (ASPPA) from July 1951 through December 1956, but includes data for the Military Petroleum Supply Agency, the successor to ASPPA, beginning January 1, 1957. Excludes Army procurement overseas prior to fiscal year 1958, and also excludes some Navy letters of intent in fiscal year 1952 for which type of pricing provision was not determined.

^{b/} Includes actions of \$10,000 or more.

^{c/} Includes Labor-Lour Contracts.

Coverage. This report includes prime contracts executed by the military departments and procurement agencies of the Department of Defense, to obtain military supplies, services, or construction. All new prime contracts are included, regardless of the amount; debit or credit changes in contracts are included only if they involve \$10,000 or more. The reports submitted by the departments as of the dates specified in this report are intended to include all contracts and amending actions executed up to that date, insofar as practicable. In practice, there is some lag in contract reporting, and some contracts may be unavoidably omitted from the statistical reports for the month in which they were approved.

Prime Contracts are defined as contractual instruments which obligate funds to obtain supplies, services, or construction. (An amendment to a prime contract may deobligate funds.) New or superseding definitive contracts, purchase orders, and the funded portion of preliminary contractual instruments, such as letters of intent and letter contracts are included in this report. Contracts which do not obligate a firm total dollar amount, or do not specify a fixed quantity, such as open-end, indefinite quantity, or term contracts, are not included in this report. However, job orders, task orders, delivery orders, or any other orders against such contracts are included.

Procurement Action as used in this report refers to an action which officially awards, amends, or otherwise officially changes a prime contract. A procurement action thus may be a new prime contract, or a debit or credit change in a contract, such as an amendment, supplemental agreement change order, cancellation, or termination that changes the total amount of funds obligated.

Intra-governmental Purchases include (a) Inter-departmental Purchases, made from or through agencies of government other than the Department of Defense, and (b) Inter-service Purchases, which are orders placed by one military technical service, bureau or command, against open-end or indefinite quantity contracts executed by other military technical services, bureaus or commands or by a joint pur-

chasing agency. (Requisitions or other means of transferring supplies within or between military departments are not included in this report, because they do not increase or decrease the total obligations of the Department of Defense.)

Net Value refers to the net change in the amount of obligations resulting from debit and credit procurement actions recorded during the period. Debit procurement actions are all new contracts plus contract changes that increase the amount of obligations by \$10,000 or more. Credit procurement actions are contract modifications that decrease the amount of obligations by \$10,000 or more.

Location of Work. The location of work is the place where the item is to be manufactured, assembled or otherwise supplied by the prime contractors, the place where the service is to be performed, or the site where the construction is to take place.

Reports from the three military departments for fiscal year 1954 and subsequent years provide information as to contracts under which the work is to be performed (1) within the United States, including its territories and possessions and the Commonwealth of Puerto Rico, and (2) outside the United States as so defined.

The data on location of work for periods prior to Fiscal year 1954 are not precisely comparable. Available reports for fiscal year 1953 include data on contracts awarded by procurement offices located in the Continental United States, for work to be done within Continental United States. These data for fiscal year 1953 therefore differ from those for fiscal year 1954 and subsequent years in that they exclude data on awards for work to be done in the territories and possessions, and the Commonwealth of Puerto Rico from the United States figures.

For fiscal years 1951 and 1952, the available reports for the Department of Defense as a whole provide information on contracts awarded by procurement offices located in the Continental United States. While most of those con-

tracts are for work to be done in the United States including territories and possessions, and the Commonwealth of Puerto Rico, some contracts are for work in foreign countries. Data for these years therefore are roughly but not exactly comparable to current reports.

Business Firms. Included in the data on awards to Business Firms are data on awards to companies, individuals and partnerships with which the military departments have contracts for work performance within the United States, including the Commonwealth of Puerto Rico, and other regions administered by the U. S. A Small Business Firm in general is a concern that is independently owned and operated, is not dominant in its field of operations, and with its affiliates, employs fewer than 500 employees, or is certified as a small business concern by the Small Business Administration. There are a number of important exceptions to the general rule concerning employment of less than 500 persons: (1) in the petroleum refining industry a small concern is one whose employment does not exceed 1,000 persons and whose crude oil capacity from owned and leased facilities is not more than 30,000 barrels per day; (2) in the construction industry a small concern is one whose average annual receipts in the preceding three fiscal years do not exceed \$5,000,000 (\$6,250,000 if the concern is located in Alaska); and (3) in the air transportation and aircraft equipment and parts industries a small concern is one whose employment does not exceed 1,000 persons.

Educational and Non-Profit Institutions. Data for these institutions have been segregated from the Business Firms category and are shown separately for the first time in the tables for fiscal year 1957. In all records prior to July 1956, procurement actions with educational and non-profit institutions are included in the data for U. S. Business Firms.

Definition of Small Business Potential. The small business potential includes all procurement actions of \$10,000 or more which are offered to small business. Since it is not practicable to secure individual reports on each of the millions of military procurement actions of less than \$10,000 each, for purposes of this report it

is assumed that all actions of less than \$10,000 also are in the small business potential. (This assumption is not strictly correct. The effect of making it is to overstate the potential and understate the percentage share of the potential awarded to Small Business.) Excluded from the potential are procurement actions of \$10,000 or more for which no small business source is known to exist or which for reasons peculiar to the particular procurement, such as patent or other proprietary rights, delivery schedules, necessity for interchangeability of parts, or mobilization base considerations can not be placed with small business concerns.

Ratio of Small Business to Total. The ratio of small business to total prime contract awards is subject to wide fluctuation, and figures for any short period of time are not necessarily representative. The percentage depends mainly on the type of commodities being procured in that particular period. When procurement of soft goods and easy-to-make items is a large part of the total, the small business percentage will be high. When aircraft, missiles, or other heavy items are purchased in large volume, the small business percentage will be relatively low.

Comparison with Fiscal Reports. There are certain differences between the coverage of this report on the value of military prime contract awards, and that of the fiscal reports of the Department of Defense which include certain data on obligations of funds for procurement and construction. One difference is that the reports on contract awards do not include funds obligated by project orders issued to military-owned and military operated establishments, such as Navy Yards, unless and until the funds of this type are used to finance contracts with private business firms or with other government agencies. Another significant difference is that this report segregates contracts for services from other procurement and production, whereas the fiscal data on obligations for procurement and construction do not. It is noted also that the Major Procurement and Production Budget Categories are not comparable with the Office of Defense Mobilization Procurement Program categories used in this report.

100 COMPANIES AND 118 SUBSIDIARY CORPORATIONS
LISTED ACCORDING TO NET VALUE OF MILITARY PRIME CONTRACT AWARDS

Fiscal Year 1960

(1 July 1959 - 30 June 1960)

The net value of military prime contract awards of \$10,000 or more to the 100 companies and 118 subsidiary corporations which received the largest dollar volume of awards in Fiscal Year 1960 totalled \$15,410.4 million, or 73.4% of the U.S. total. This was slightly less than the 73.8% received by the top 100 in Fiscal Year 1959 and the 74.2% in Fiscal Year 1958.

Although the net decrease is small in percentage terms, since 1958 there has been a significant shift of awards, from the top companies on the list to smaller contractors.

Twelve of the top 25 companies received a smaller volume of awards in Fiscal Year 1960 than in Fiscal Year 1958, and 11 received less than in Fiscal Year 1959. The 1958-1960 decrease for the 12 companies amounted to 9.5% of the U.S. total. This was partly offset by increased awards to others in the top 25, but this group of companies as a whole received 4.3% less of the total than the top 25 received in Fiscal Year 1958.

The shift in the distribution of awards is shown below:

Percent of U.S. Total Awards

<u>Companies</u>	<u>FY 1958</u>	<u>FY 1959</u>	<u>FY 1960</u>	<u>Change FY 58-60</u>
1-5	26.3	25.0	24.8	-1.5
6-10	12.4	12.2	11.3	-1.1
11-15	7.8	8.0	7.3	-.5
16-20	6.2	5.6	5.6	-.6
21-25	5.1	4.0	4.5	-.6
26-100	16.4	19.2	19.9	+3.5
TOTAL	74.2	73.8	73.4	-.8 ?

There are 65 companies on the list whose main prime contract work is in research, development, test or production of aircraft, missiles, or electronics. A large part of the electronics awards are related to aircraft, missile, or warning and control system programs. The list also includes 11 oil companies, 8 construction firms and 4 shipbuilders. Of the remaining 12 companies, 4 received awards for missile fuels, ammunition loading, or chemicals, 2 for trucks or other vehicles, 2 for transportation services, and 4 for various research, development and testing services. Three of the 100 companies are educational or other non-profit institutions.

The current list contains 18 companies which did not appear on the Fiscal Year 1959 list. As shown in the following table, the principal effect

of this turnover was a decrease of 4 in the number of oil companies, and a decrease of 3 shipbuilders, counterbalanced by an increase of 4 aircraft, missiles and electronics firms, 2 construction firms and 1 chemical producer.

<u>Type of Work</u>	<u>No. of Companies Listed in</u>		<u>Net Change</u>
	<u>FY 1960 but not FY 1959</u>	<u>FY 1959 but not FY 1960</u>	
Aircraft, Missiles & Electronics	6	2	4
Petroleum	0	4	(-) 4
Construction	7	5	2
Ships	1	4	(-) 3
Ammunition and Chemicals	2	1	1
Services	2	2	0

General Dynamics Corporation with 6.0% of the total awards leads the list, as it did in Fiscal Year 1959. Lockheed Aircraft Corporation moved into 2nd place (from 5th the previous year), with 5.1% of the total. Boeing Airplane Company is in third place, and General Electric Company in fourth.

As noted in previous reports, a substantial proportion of the prime contract dollars are subcontracted to other companies. Approximately 90% of the dollar volume reported in the Defense Small Business Subcontracting Program during Fiscal Year 1960 was accounted for by the companies represented in these top 100 firms. The participating companies reported that slightly more than half of their receipts for military work were subcontracted, and that one-third of their subcontract payments were made to small business firms.

Office of the Secretary of Defense

REDUCING IMPACT OF MILITARY PROCUREMENT

INDEX OF 100 PARENT COMPANIES WHICH WITH THEIR SUBSIDIARIES RECEIVED THE LARGEST DOLLAR VOLUME OF MILITARY PRIME CONTRACT AWARDS IN FISCAL YEAR 1960

Rank	Parent Company	Rank	Parent Company
84.	Air Products, Inc.	52.	Kiewit (Peter) Sons Co.
44.	American Bosch Arma Corp.	63.	Laboratory for Electronics, Inc.
56.	American Machine & Foundry Co.	65.	Lear, Inc.
8.	American Telephone & Telegraph Co.	85.	Leavell-Scott & Associates
90.	ARO, Inc.	2.	Lockheed Aircraft Corp.
26.	Avco Corp.	96.	Loral Electronics Corp.
51.	Bell Aircraft Corp.	79.	MacDonald Scott & Associates
18.	Bendix Corp.	60.	Magnavox Co. (The)
49.	Bethlehem Steel Corp.	53.	Marquardt Corp.
3.	Boeing Airplane Co.	6.	Martin Co. (The)
30.	Burroughs Corp.	71.	Mason & Hanger - Silas Mason Co.
75.	Cities Service Co.	55.	Massachusetts Institute of Technology
27.	Chance Vought Aircraft, Inc.	22.	McDonnell Aircraft Corp.
24.	Chrysler Corp.	38.	Merritt-Chapman & Scott Corp.
33.	Collins Radio Co.	34.	Minneapolis-Honeywell Regulator Co.
48.	Continental Motors Corp.	59.	Morrison-Knudsen Co.
67.	Continental Oil Co.	76.	Motorola, Inc.
86.	Cook Electric Co.	21.	Newport News Shipbuilding & Dry Dock Co.
45.	Curtiss-Wright Corp.	5.	North American Aviation, Inc.
10.	Douglas Aircraft Co.	28.	Northrop Corp.
74.	DuPont (E.I.) de Nemours & Co.	54.	Ogden Corp.
98.	Eby, (Martin K.) Construction Co.	69.	Olin Mathieson Chemical Corp.
91.	Fairchild Engine & Airplane Corp.	89.	Overseas National Airways, Inc.
92.	Firestone Tire & Rubber Co.	35.	Pan American World Airways, Inc.
57.	Food Machinery & Chemical Corp.	36.	Philco Corp.
81.	Ford Motor Co.	9.	Radio Corp. of America
43.	Garrett Corp.	12.	Raytheon Co.
1.	General Dynamics Corp.	15.	Republic Aviation Corp.
4.	General Electric Co.	83.	Richfield Oil Corp.
20.	General Motors Corp.	46.	Ryan Aeronautical Co.
42.	General Precision Equipment Corp.	66.	Sanders Assoc., Inc.
64.	General Telephone & Electronics Corp.	62.	Shell Caribbean Petroleum Co.
17.	General Tire & Rubber Co.	47.	Socony Mobil Oil Co.
94.	Gilfillan Bros. Inc.	13.	Sperry Rand Corp.
77.	Goodrich, (B. F.) Co.	93.	Standard Kollsman Industries, Inc.
39.	Goodyear Tire & Rubber Co.	25.	Standard Oil Co. (N. J.)
19.	Grumman Aircraft Engineering Corp.	32.	Standard Oil Co. of California
87.	Gulf Oil Corp.	80.	States Marine Corp.
82.	Hayes Aircraft Corp.	97.	Sunray Mid-Continent Oil Co.
61.	Hazeltine Corp.	72.	System Development Corp.
37.	Hercules Powder Co.	50.	Temco Aircraft Corp.
78.	Hoffman Electronics Corp.	40.	Texaco, Inc.
11.	Hughes Aircraft Co.	29.	Thiokol Chemical Corp.
14.	International Business Machines Corp.	31.	Thompson Ramo Wooldridge, Inc.
95.	International Harvester Co.	38.	Tidewater Oil Co.
23.	International Telephone & Telegraph Co.	7.	United Aircraft Corp.
73.	Johns Hopkins University	99.	U. S. Rubber Co.
70.	Jones (J. A.) Construction Co.	100.	Utah-Manhattan-Sundt
41.	Kaiser-Raymond-Macco-Puget Sound	68.	Westinghouse Air Brake Co.
58.	Kaman Aircraft Corp.	16.	Westinghouse Electric Corp.

100 COMPANIES AND THEIR SUBSIDIARIES LISTED ACCORDING TO
NET VALUE OF MILITARY PRIME CONTRACT AWARDS

July 1959 - June 1960

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
	U.S. TOTAL a/	\$20,995.0	100.0%	100.0%
	TOTAL, 100 COMPANIES AND THEIR SUBSIDIARIES b/	15,410.4	73.4	73.4
1.	GENERAL DYNAMICS CORP.	1,260.2	6.0	6.0
2.	LOCKHEED AIRCRAFT CORP.	968.2	4.6	
	Grand Central Rocket Co.	1.0	d/	
	Lockheed Air Terminal, Inc.	1.5	d/	
	Lockheed Aircraft Service, Inc.	30.0	0.1	
	Lockheed Aircraft International, Inc.	5.5	d/	
	Lockheed Electronics Co.	12.1	0.1	
	Puget Sound Bridge & Dredging Co.	52.5	0.3	
	Total	1,070.8	5.1	11.1
3.	BOEING AIRPLANE CO.	1,008.7	4.8	15.9
4.	GENERAL ELECTRIC CO.	963.1	4.6	
	International General Electric Puerto Rico, Inc.	c/	d/	
	Total	963.1	4.6	20.5
5.	NORTH AMERICAN AVIATION, INC.	907.7	4.3	24.8
6.	MARTIN CO. (THE)	596.7	2.8	27.6
7.	UNITED AIRCRAFT CORP.	517.4	2.5	30.1
8.	AMERICAN TELEPHONE & TELEGRAPH CO.	0.8	d/	
	Chesapeake & Potomac Telephone Co.	c/	d/	
	Teletype Corp.	13.8	0.1	
	Western Electric Co., Inc.	452.2	2.1	
	Total	466.8	2.2	32.3
9.	RADIO CORP. OF AMERICA	405.8	1.9	34.2

REDUCING IMPACT OF MILITARY PROCUREMENT

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
10.	DOUGLAS AIRCRAFT CO.	\$404.9	1.9%	36.1%
11.	HUGHES AIRCRAFT CO.	349.1	1.7	37.8
12.	RAYTHEON CO.	320.8	1.5	
	Machlett Laboratories, Inc.	2.2	d/	
	Sorenson & Co., Inc.	0.4	d/	
	Total	<u>323.4</u>	<u>1.5</u>	39.3
13.	SPERRY RAND CORP.	281.8	1.3	
	Vickers, Inc.	14.2	0.1	
	Total	<u>296.0</u>	<u>1.4</u>	40.7
14.	INTERNATIONAL BUSINESS MACHINES CORP.	289.4	1.4	
	Service Bureau Corp.	0.6	d/	
	Total	<u>290.0</u>	<u>1.4</u>	42.1
15.	REPUBLIC AVIATION CORP.	265.1	1.3	43.4
16.	WESTINGHOUSE ELECTRIC CORP.	257.6	1.2	44.6
17.	GENERAL TIRE & RUBBER CO.	6.6	d/	
	Aerojet-General Corp.	235.1	1.2	
	Byers (A.M.) Co.	0.5	d/	
	Stauffer-Aerojet Co.	1.0	d/	
	Total	<u>243.2</u>	<u>1.2</u>	45.8
18.	BENDIX CORP.	238.8	1.1	
	Bendix Westinghouse Automotive Air Brake Co.	0.2	d/	
	Jones (M.C.) Electronics Co., Inc.	0.1	d/	
	Sheffield Corp.	0.3	d/	
	Total	<u>239.4</u>	<u>1.1</u>	46.9
19.	GRUMMAN AIRCRAFT ENGINEERING CORP.	239.2	1.1	
	Dynamic Developments, Inc.	0.1	d/	
	Total	<u>239.3</u>	<u>1.1</u>	48.0
20.	GENERAL MOTORS CORP.	218.4	1.0	
	Ethyl Corp. a/	0.3	d/	
	Frigidaire Sales Corp.	c/	d/	
	Total	<u>218.7</u>	<u>1.0</u>	49.0
21.	NEWPORT NEWS SHIPBUILDING & DRY DOCK CO.	215.2	1.0	50.0

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
22.	McDONNELL AIRCRAFT CORP.	\$195.0	0.9%	50.9%
23.	INTERNATIONAL TELEPHONE & TELEGRAPH CORP.	124.2	0.6	
	Federal Electric Corp.	63.5	0.3	
	Kuthe Laboratories, Inc.	0.6	d/	
	Mackay Radio & Telegraph Co.	c/	d/	
	Royal Electric Corp.	0.2	d/	
	Total	<u>188.5</u>	<u>0.9</u>	51.8
24.	CHRYSLER CORP.	187.0	0.9	52.7
25.	STANDARD OIL CO. (N. J.)	0.0	0.0	
	Enjay Co., Inc.	0.2	d/	
	Esso Export Corp.	83.0	0.4	
	Esso Research & Engineering Co.	2.1	d/	
	Ethyl Corp. e/	0.4	d/	
	Gilbert & Barker Mfg. Co.	c/	d/	
	Humble Oil & Refining Co.	83.8	0.4	
	Standard Vacuum Oil Co. f/	4.0	d/	
	Total	<u>173.5</u>	<u>0.8</u>	53.5
26.	AVCO CORP.	156.8	0.8	
	Pre-Flight Industries Corp.	0.1	d/	
	Total	<u>156.9</u>	<u>0.8</u>	54.3
27.	CHANCE VOUGHT AIRCRAFT, INC.	141.9	0.7	55.0
28.	NORTHPROP CORP.	134.7	0.7	
	Page Communications Engineers, Inc.	5.1	d/	
	Total	<u>139.8</u>	<u>0.7</u>	55.7
29.	THIokol CHEMICAL CORP.	131.0	0.6	
	National Electronics Laboratories, Inc.	0.2	d/	
	Total	<u>131.2</u>	<u>0.6</u>	56.3
30.	BURROUGHS CORP.	119.7	0.6	
	Control Instrument Co., Inc.	5.4	d/	
	Total	<u>125.1</u>	<u>0.6</u>	56.9
31.	THOMPSON RAMO WOOLDRIDGE, INC.	43.3	0.2	
	Pacific Semiconductors, Inc.	0.5	d/	
	Space Technology Laboratories, Inc.	77.0	0.4	
	Total	<u>120.8</u>	<u>0.6</u>	57.5

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
32.	STANDARD OIL CO. OF CALIFORNIA	\$ 70.8	0.3%	
	American Bitumuls & Asphalt Co.	0.1	<u>d/</u>	
	California Oil Co.	0.3	<u>d/</u>	
	California Research Corp.	0.1	<u>d/</u>	
	California Spray-Chemical Corp.	0.1	<u>d/</u>	
	California Tanker Co.	c/	<u>d/</u>	
	California Texas Oil Corp. g/	31.6	0.2	
	Oronite Chemical Co.	0.2	<u>d/</u>	
	Standard Oil Co. of Texas	7.5	<u>d/</u>	
	Total	<u>110.7</u>	<u>0.5</u>	58.0
33.	COLLINS RADIO CO.	97.2	0.5	
	Alpha Corp.	5.9	<u>d/</u>	
	Communication Accessories Corp.	c/	<u>d/</u>	
	Total	<u>103.1</u>	<u>0.5</u>	58.5
34.	MINNEAPOLIS-HONEYWELL REGULATOR CO.	97.5	0.5	
	Marion Electrical Instrument Co.	c/	<u>d/</u>	
	Total	<u>97.5</u>	<u>0.5</u>	59.0
35.	PAN AMERICAN WORLD AIRWAYS, INC.	95.6	0.5	
	Pan American-Grace Airways, Inc.	c/	<u>d/</u>	
	Total	<u>95.6</u>	<u>0.5</u>	59.5
36.	PHILCO CORP.	95.2	0.5	
	Lansdale Tube Co.	c/	<u>d/</u>	
	Total	<u>95.2</u>	<u>0.5</u>	60.0
37.	HERCULES POWDER CO.	92.2	0.4	60.4
38.	MERRITT-CHAPMAN & SCOTT CORP.	0.6	<u>d/</u>	
	Devco & Reynolds Co.	1.0	<u>d/</u>	
	New York Shipbuilding Corp.	87.4	0.4	
	Tennessee Products & Chemical Corp.	0.3	<u>d/</u>	
	Total	<u>89.3</u>	<u>0.4</u>	60.8
39.	GOODYEAR TIRE & RUBBER CO.	24.9	0.1	
	Goodyear Aircraft Corp.	59.7	0.3	
	Goodyear Engineering Corp.	0.1	<u>d/</u>	
	Total	<u>84.7</u>	<u>0.4</u>	61.2
40.	TEXACO, INC.	35.6	0.2	
	California Texas Oil Corp. g/	31.6	0.2	
	Texaco (Brazil) Inc.	0.1	<u>d/</u>	
	Texaco Puerto Rico Inc.	2.0	<u>d/</u>	
	Texaco Trinidad, Inc.	0.2	<u>d/</u>	
	Texas Petroleum Co.	7.3	<u>d/</u>	
	Total	<u>76.8</u>	<u>0.4</u>	61.6

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
41.	KAISER-RAYMOND-MACCO-PUGET SOUND <u>h/</u>	\$ 75.4	0.4%	62.0%
42.	GENERAL PRECISION EQUIPMENT CORP.	0.0	0.0	
	GPE Controls, Inc.	0.1	<u>d/</u>	
	General Precision, Inc.	70.1	0.4	
	Graflex, Inc.	0.6	<u>d/</u>	
	Society for Visual Education, Inc.	<u>c/</u>	<u>d/</u>	
	Strong Electric Corp.	1.1	<u>d/</u>	
	Total	<u>71.9</u>	<u>0.4</u>	62.4.
43.	GARRETT CORP.	71.5	0.3	62.7
44.	AMERICAN BOSCH ARMA CORP	70.7	0.3	63.0
45.	CURTISS-WRIGHT CORP.	70.4	0.3	63.3
46.	RYAN AERONAUTICAL CO.	65.5	0.3	
	Aerolab Development Co.	<u>c/</u>	<u>d/</u>	
	Total	<u>65.5</u>	<u>0.3</u>	63.6
47.	SOCONY MOBIL OIL CO., INC.	58.2	0.3	
	Mobil Overseas Oil Co., Inc.	2.4	<u>d/</u>	
	Standard Vacuum Oil Co. <u>f/</u>	4.0	<u>d/</u>	
	Total	<u>64.6</u>	<u>0.3</u>	63.9
48.	CONTINENTAL MOTORS CORP.	45.6	0.2	
	Continental Aviation & Engineering Corp.	17.4	0.1	
	Wisconsin Motor Corp.	0.1	<u>d/</u>	
	Total	<u>63.1</u>	<u>0.3</u>	64.2
49.	BETHLEHEM STEEL CORP.	0.0	0.0	
	Bethlehem Steel Co.	62.1	0.3	
	Bethlehem Steel Export Corp.	0.1	<u>d/</u>	
	Total	<u>62.2</u>	<u>0.3</u>	64.5
50.	TEMCO AIRCRAFT CORP.	61.3	0.3	
	Penake Pedrick & Miller, Inc.	0.6	<u>d/</u>	
	Total	<u>61.9</u>	<u>0.3</u>	64.8

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
51.	BELL AIRCRAFT CORP. Bell Helicopter Corp. Hydraulic Research Mfg. Co. Lord Chemical Corp. Wheelabrator Corp. Total	\$21.8 38.8 0.3 c/ 0.2 <u>61.1</u>	0.1 0.2 d/ d/ d/ 0.3	65.1
52.	KIEWIT (PETER) SONS' CO.	52.4	0.3	65.4
53.	MARQUARDT CORP. Cooper Development Corp. Total	51.6 0.6 <u>52.2</u>	0.3 d/ 0.3	65.7
54.	OGDEN CORP. Avondale Marine Ways, Inc. Commercial Filter Corp. Indiana Commercial Filters Corp. Total	0.0 50.7 0.1 0.1 <u>50.9</u>	0.0 0.3 d/ d/ 0.3	66.0
55.	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	50.6	0.2	66.2
56.	AMERICAN MACHINE & FOUNDRY CO. Voit (W.J.) Rubber Corp. Total	50.0 c/ <u>50.0</u>	0.2 d/ 0.2	66.4
57.	FOOD MACHINERY & CHEMICAL CORP.	46.7	0.2	66.6
58.	KAMAN AIRCRAFT CORP.	46.6	0.2	66.8
59.	MORRISON-KNUDSEN CO. Alaskan Plumbing & Heating Co. Ferguson (H.K.) Co. Total	45.7 0.2 0.1 <u>46.0</u>	0.2 d/ d/ 0.2	67.0
60.	MAGNAVOX CO.	45.3	0.2	67.2
61.	HAZELTINE CORP.	44.9	0.2	67.4
62.	SHELL CARIBBEAN PETROLEUM CO. International Lubricant Corp. Shell Oil Co. Total	24.3 0.8 19.7 <u>44.8</u>	0.1 d/ 0.1 0.2	67.6
63.	LABORATORY FOR ELECTRONICS, INC.	44.3	0.2	67.8

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
64.	GENERAL TELEPHONE & ELECTRONICS CORP.	\$ 0.0	0.0	
	Automatic Electric Co.	0.4	<u>d/</u>	
	Automatic Electric Sales Corp.	4.6	<u>d/</u>	
	General Telephone & Electronics Laboratories, Inc.	0.2	<u>d/</u>	
	Lenkurt Electric Co.	1.4	<u>d/</u>	
	Sylvania Electric Products, Inc.	37.0	0.2	
	Total	43.6	0.2	68.0
65.	LEAR, INC.	43.2	0.2	68.2
66.	SANDERS ASSOCIATES, INC.	40.9	0.2	68.4
67.	CONTINENTAL OIL CO.	38.2	0.2	
	Malco Refineries, Inc.	1.4	<u>d/</u>	
	Westcott Oil Corp.	c/	<u>d/</u>	
	Total	39.6	0.2	68.6
68.	WESTINGHOUSE AIR BRAKE CO.	c/	<u>d/</u>	
	Le Tourneau-Westinghouse Co.	4.0	<u>d/</u>	
	Melpar, Inc.	35.5	0.2	
	Total	39.5	0.2	68.8
69.	OLIN MATHIESON CHEMICAL CORP.	35.5	0.2	
	Liberty Powder Co.	0.9	<u>d/</u>	
	Liberty Powder Defense Corp.	1.7	<u>d/</u>	
	Total	38.1	0.2	69.0
70.	JONES (J.A.) CONSTRUCTION CO.	36.7	0.2	69.2
71.	MASON & HANGER-SILAS MASON CO., INC.	36.0	0.2	69.4
72.	SYSTEM DEVELOPMENT CORP.	35.2	0.2	69.6
73.	JOHNS HOPKINS UNIVERSITY (THE)	34.8	0.2	69.8
74.	DU PONT (E. I.) DE NEMOURS & CO.	3.5	<u>d/</u>	
	Remington Arms Co., Inc.	31.0	0.2	
	Total	34.5	0.2	70.0
75.	CITIES SERVICE CO.	0.3	<u>d/</u>	
	Arkansas Fuel Oil Corp.	0.5	<u>d/</u>	
	Cities Service Gas Co.	0.6	<u>d/</u>	
	Cities Service Oil Co.	32.8	0.2	
	Orange State Oil Co.	c/	<u>d/</u>	
	Total	34.2	0.2	70.2

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
76.	MOTOROLA, INC.	\$33.2	0.2	
	Dahlberg Co.	0.2	$\frac{d}{a}$	
	Motorola Communications & Electronics, Inc.	0.7	$\frac{d}{a}$	
	Total	<u>34.1</u>	<u>0.2</u>	70.4
77.	GOODRICH (B. F.) CO.	34.0	0.2	
	Goodrich-High Voltage Astronautics, Inc.	$\frac{c}{d}$	$\frac{d}{a}$	
	Total	<u>34.0</u>	<u>0.2</u>	70.6
78.	HOFFMAN ELECTRONICS CORP.	32.0	0.2	
	Hoffman Sales Corp.	$\frac{c}{d}$	$\frac{d}{a}$	
	Total	<u>32.0</u>	<u>0.2</u>	70.8
79.	MACDONALD, SCOTT & ASSOCIATES $\frac{1}{j}$	31.7	0.2	71.0
80.	STATES MARINE CORP.	15.8	0.1	
	States Marine Lines, Inc.	11.2	0.1	
	Isthmian Lines, Inc.	4.6	$\frac{d}{a}$	
	Total	<u>31.6</u>	<u>0.2</u>	71.2
81.	FORD MOTOR CO.	30.5	0.2	71.4
82.	HAYES AIRCRAFT CORP.	30.0	0.2	71.6
83.	RICHFIELD OIL CORP.	29.6	0.1	
	American Mineral Spirits Co.	0.2	$\frac{d}{a}$	
	Total	<u>29.8</u>	<u>0.1</u>	71.7
84.	AIR PRODUCTS, INC.	25.6	0.1	
	Dynamic Research, Inc.	0.2	$\frac{d}{a}$	
	Gas Industries, Inc.	3.1	$\frac{d}{a}$	
	Total	<u>28.9</u>	<u>0.1</u>	71.8
85.	LEAVELL-SCOTT & ASSOCIATES $\frac{1}{j}$	28.6	0.1	71.9
86.	COOK ELECTRIC CO.	28.3	0.1	72.0
87.	GULF OIL CORP.	22.3	0.1	
	Callery Chemical Co.	4.5	$\frac{d}{a}$	
	Gulf Research & Development Co.	0.1	$\frac{d}{a}$	
	Mene Grande Oil Co.	1.3	$\frac{d}{a}$	
	Total	<u>28.2</u>	<u>0.1</u>	72.1

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
88.	TIDEWATER OIL CO Seaside Oil Co.	\$26.0 1.0	0.1 <u>d/</u>	
	Total	<u>27.0</u>	<u>0.1</u>	72.2
89.	OVERSEAS NATIONAL AIRWAYS, INC.	27.0	0.1	72.3
90.	ARO, INC.	26.5	0.1	72.4
91.	FAIRCHILD ENGINE & AIRPLANE CORP.	25.9	0.1	72.6
92.	FIRESTONE TIRE & RUBBER CO.	25.9	0.1	72.5
93.	STANDARD KOLLSMAN INDUSTRIES, INC. Kollsman Instrument Corp. Richardson-Allen Corp.	0.0 25.7 c/	0.0 0.1 <u>d/</u>	
	Total	<u>25.7</u>	<u>0.1</u>	72.7
94.	GILFILLAN BROTHERS, INC.	25.6	0.1	72.8
95.	INTERNATIONAL HARVESTER CO. Hough (Frank G.) Co. Macleod & Co.	20.1 5.2 0.3	0.1 <u>d/</u> <u>d/</u>	
	Total	<u>25.6</u>	<u>0.1</u>	72.9
96.	LORAL ELECTRONICS CORP.	25.3	0.1	73.0
97.	SUNRAY MID-COMPONENT OIL CO. D-X Sunray Oil Co.	3.2 21.2	<u>d/</u> <u>0.1</u>	
	Total	<u>24.4</u>	<u>0.1</u>	73.1
98.	EBY (MARTIN K.) CONSTRUCTION CO., INC.	23.7	0.1	73.2
99.	UNITED STATES RUBBER CO.	23.5	0.1	73.3
100.	UTAH-MANHATTAN-SUNDT <u>k/</u>	23.4	0.1	73.4

FOOTNOTES:

a/ 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 U. S.; plus awards to listed companies and other identifiable U. S. companies for work overseas.

Procurement actions include definitive contracts, the obligated portions of letter of intent and letter contracts, purchase orders, job orders, task orders, delivery orders, and any other orders against existing 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.

b/ The assignment of subsidiaries to parent companies is based on stock ownership of 50% 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 30 June 1960. Only those subsidiaries are shown for which procurement actions have been reported.

c/ Less than \$50,000.

d/ Less than 0.05%

e/ Stock Ownership 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.

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

g/ Stock ownership is equally divided between Standard Oil Co. of California and Texaco, Inc.; half of the total of military awards is shown under each of the parent companies.

h/ A joint venture of Henry J. Kaiser Co., Raymong International, Inc., Macco Corp., and Puget Sound Bridge & Dry Dock Co.

i/ A joint venture of MacDonald Construction Co. and 13 other construction firms.

j/ A joint venture of C. H. Leavell & Co. and 7 other construction firms.

k/ A joint venture of Utah Construction & Mining Co., Manhattan Construction Co. of Oklahoma, and M. M. Sundt Construction Co.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., March 9, 1961.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
Washington, D.C.

DEAR MR. CAMPBELL: There was agreement among the congressional representatives at the meeting with Secretary McNamara and his staff on Friday, March 3, 1961, that a comprehensive review should be made at an early date of military stock fund operations.

On behalf of Senator Douglas, Congressmen Hébert, Curtis, and myself, I am requesting that the General Accounting Office make such a review to be concluded as soon as possible. It is expected that the review will contain conclusions and recommendations as to the justification for stock funds, their effect on the efficiency and economy of operations of the Department of Defense and legislation which may be desirable.

During the past several years congressional hearings have revealed a number of weaknesses in the concept and operation of the stock funds such as (1) divergence of standards of use among the services, (2) use at wholesale and retail levels, (3) items for inclusion and (4) reimbursement procedures. Recent Department of Defense regulations provide that excess stock fund items are subject to transfer to other Federal agencies without charge. The operating theory that no stock fund property will be issued without reimbursement is therefore nullified. This change in concept makes it necessary that a new theory of operation be developed.

I am aware that the Cooper committee made a study of stock funds at the request of Secretary Wilson and other studies including two by the Budget Bureau have been made. But I believe that the GAO as an agency of Congress is the proper agency to take the lead in making a comprehensive study as above indicated.

I would appreciate your reaction to this request. You may be assured of every possible assistance which the above-mentioned may be able to give you.

In making this request it is appropriate to again express appreciation to you and your staff for the many excellent studies and reports you have made in the field of property management during the past 2 years. These have been of great value to Members of Congress who do not have the time personally to delve into the many intricacies of these subjects.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 10, 1961.

HON. JOHN W. McCORMACK,
House of Representatives.

DEAR MR. McCORMACK: This refers to your letter dated March 9, 1961, on behalf of yourself, Senator Douglas, and Congressmen Hébert and Curtis, requesting that our Office undertake a comprehensive review of military stock fund operations.

We are taking steps immediately to initiate the review and we will be pleased to keep you advised of our progress. We very much appreciate having the benefit of your comments concerning weaknesses in the concept and operation of the stock funds and it is most helpful to have the offer of assistance from you and your distinguished colleagues in this project.

You may be sure, also, that your kind expressions concerning the efforts of our Office in the past are the source of great satisfaction and encouragement to all of us here.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

NEWS RELEASE, PLEASE NOTE DATE

DEPARTMENT OF DEFENSE,
OFFICE OF PUBLIC AFFAIRS,
Washington, D.C.

No. 885-61

Hold for release
until 3:30 p.m. (e.d.t.),
Thursday, August 31, 1961SECRETARY McNAMARA ANNOUNCES DECISION TO ESTABLISH DEFENSE
SUPPLY AGENCY

Secretary of Defense Robert McNamara today announced a decision to establish within the Department of Defense a Defense Supply Agency to manage, procure, and distribute certain common supplies and related services.

Establishment of the new Agency, resulting from studies directed by the Secretary in March 1961 will, the Secretary said, "result in substantial improvement and economy in our logistic management.

Among the functions to be taken over by the Agency are those now carried on by the Armed Forces Supply Support Center and the Consolidated Surplus Sales Office. The Agency will also assume the functions now performed by single managers in the fields of subsistence (Army), clothing and textiles (Army), traffic management (Army), petroleum products (Navy), medical supplies (Navy), general supplies (Army), industrial supplies (Navy), automotive supplies (Army), and construction supplies (Army).

In addition to these commodities and Services, management of selected electrical and electronics materiel will be placed under the Agency as soon as possible. Further, in accordance with the unanimous recommendation of the military services, studies will be made by the new Agency to determine whether industrial production equipment, chemical supplies, and aeronautical spare parts should also be brought under Agency management.

If all of these items are eventually brought under the new Agency, the total value of the integrated management inventory could approximate \$21 billion—more than five times the total value of the present integrated management inventory of \$3.7 billion—and could result in a possible inventory reduction of between \$2 and \$4 billion.

The Defense Supply Agency will perform or arrange for inspection of material and will fund and operate its own distribution system, using existing facilities of all the services. A stock fund will be set up to finance supplies procured by the new Agency.

Under the plan, each military service will retain control over the development and management of its assigned weapons systems as well as items of critical importance to the operation of such systems.

The Director of the Defense Supply Agency will be appointed by and report directly to the Secretary of Defense. The Agency will be jointly staffed except as otherwise approved by the Secretary.

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