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IMPACT OF MILITARY SUPPLY AND
SERVICE ACTIVITIES ON THE ECONOMY

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OF THE

SUBCOMMITTEE ON DEFENSE PROCUREMENT

TO THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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CONTENTS

	Page
Letter of transmittal.....	1
Introduction.....	1
PART I	
Comments on previous recommendations and further recommendations..	2
1. Common supply agency at Secretary of Defense level.....	2
2. Bid procedure—competitive versus noncompetitive.....	2-4
3. Budget Bureau role in consolidating supply and service activities..	4-5
4. Role of GSA vis-a-vis DOD (DSA).....	5
5. Statutory authority of Commerce Department re surplus property disposals.....	5-6
6. Consultations among executive agencies re more equitable alloca- tion of defense business.....	6
7. Use of stock funds in the DOD.....	6
8. Uniform patent legislation.....	7
9. Review of all common service activities pursuant to the McCor- mack-Curtis amendment.....	7
Consolidation of common services—hospital facilities.....	10
Consolidation of common services—automatic data processing (ADP)....	12
Discontinuing nonessential installations and activities.....	13
Military commissaries—PX's.....	15
Discontinuing nonessential commercial-industrial activities.....	17
PART II	
General review of progress since 1960.....	20
Cost reduction program in DOD.....	21
Statement of Secretary McNamara.....	22
Details of DOD procurement and cost reduction program.....	23
Consolidation of management of common supply and service activities.....	23
Establishment of Defense Supply Agency (DSA).....	24
Effectiveness of DSA.....	28
The Cuban emergency.....	29
Morale in DSA.....	29
Future role of DSA.....	30
1. Control of items entering military supply systems..	30
2. Utilization of stocks—Project Plus.....	32
Assignment of supply items to DSA for management.....	33
Item management in DOD and DSA.....	34
4. Competitive procurement, DOD and DSA.....	35
5. Research and development, and engineering capa- bility of DSA.....	36

APPENDIXES

	Page
1. Chairman Douglas' letter of December 30, 1960, to Secretary-designate McNamara.....	39
2. Secretary McNamara's first annual progress report.....	40
3. Recommendations in subcommittee report of October 1960.....	46
4. GSA/DOD memorandum of understanding: Deputy Director Staats' letter of June 7, 1963, to Chairman Douglas.....	47
Text of memo of understanding.....	47
Chairman Douglas' letter of June 20, 1963, to Mr. Staats re a plan for a Federal-wise supply system.....	48
5. S. 1577, a bill to authorize the Administrator of GSA to coordinate and otherwise provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies.....	49
6. Information re military commissaries and PX's.....	50
7. Budget Bureau Bulletin No. 60-2 re commercial-industrial activities of the Government providing products or services for governmental use.....	52
8. Duplicate management of A-2 coded items.....	64

TABLES

1. Net value of military procurements, fiscal years 1951-62.....	4
2. New obligational authority for R. & D. in meteorology.....	9
3. Top 20 retailers.....	16
4. Sales of commissaries and PX's.....	16
5. Basis for continuation of commissaries.....	17
6. Selected DSA key indicators.....	28
7. Cost reduction program—DSA goals.....	28
8. Services versus DSA-managed items.....	33
9. Status of item coding and classification.....	34
10. Proposed program Natick Q.R. & E. Command.....	37

CHARTS

1. A summary of progress (DSA) through fiscal year 1962.....	26
2. A summary of progress (DSA) through fiscal year 1963.....	27
3. The Cuban emergency—DSA responds to the crisis.....	29
4. Competitive procurement—DSA.....	35

LETTER OF TRANSMITTAL

JULY 18, 1963.

To Members of the Joint Economic Committee:

Transmitted herewith is a report of the Subcommittee on Defense Procurement on the "Impact of Military Supply and Service Activities on the Economy." The report also covers closely related functions of the General Services Administration.

Data for the report were derived from a staff report, "Background Material on Economic Aspects of Military Procurement and Supply," dated March 1963, from hearings of the subcommittee on March 28, 29, and April 1, 1963, and from field investigations by the economic consultant to the subcommittee.

As in the past, the subcommittee has not been concerned with questions of military strategy, weapons, size of forces, disarmament, etc., but with the economic issues involved in the way the Nation spends over two-thirds of its budget. Of particular interest to the subcommittee has been the great effort and progress made by Secretary McNamara and his staff through a cost reduction program to attain better organization and supply management to stem the annual waste of billions which has characterized our defense efforts for the past two decades and placed such an unnecessary burden on our economy.

I had written to Secretary-designate McNamara on December 30, 1960, making some suggestions and hoping that he would at least give them consideration (app. 1, p. 39). The progress made under Secretary McNamara has been phenomenal and will result in annual savings of more than \$3.5 billion by the end of fiscal year 1965.* The fact that such savings were possible for many years is nothing short of tragic when we consider the annual budget, national debt, and unfilled national needs.

The highest degree of cooperation was rendered to the subcommittee by staff at all levels in the Department of Defense, General Services Administration, Bureau of the Budget, the Committee of Hoover Commission Task Force Members, and many others. A special word of commendation is due Comptroller General Campbell and his staff who have provided the Congress and the subcommittee with a steady flow of pertinent reports and recommendations bearing on the subject matter of the subcommittee's endeavor.

The testimony of Congressman Herbert C. Bonner, as an elder statesman in our field of inquiry, was valuable and much appreciated.

Recommendations for additional and continued actions contained in this report should not be viewed as adverse criticism of Secretary McNamara's administration but rather as an indication of the enor-

* Secretary McNamara submitted his "First Annual Progress Report" to the President on July 8, 1963. The Secretary states that savings of \$1 billion were realized in fiscal year 1963 and that actions planned will produce annual savings of \$4 billion by fiscal year 1967 (app. 2, p. 40).

mity and complexity of an economic-social-political problem which at long last is being brought under control. It is difficult to understand how more could have been done in the span of 2½ years, though much must yet be done.

Continued progress will require sustained high-level effort and courage in the Pentagon, full support by the administration, and sympathetic backing and encouragement from the Members of Congress despite the fact that specific actions from time to time may not appeal to the individual point of view.

PAUL H. DOUGLAS,
Chairman, Subcommittee on Defense Procurement.

IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES ON THE ECONOMY

INTRODUCTION

The Joint Economic Committee has for a number of years made reference in its reports to the impact of military expenditures on the economy. Such expenditures have averaged 9.35 percent of the gross national product during the 10-year period, fiscal years 1953-62. The net value of military procurements alone averaged over \$24 billion for the period 1958-62, were \$27.8 billion in fiscal 1962 and are expected to increase despite actual and anticipated economies.

Hearings of the Subcommittee on Defense Procurement in January 1960 revealed the intolerable waste in supply operations, the legislative attempts for at least two decades toward progress with specific emphasis on the McCormack-Curtis amendment to the National Security Act which authorizes the Secretary of Defense to effectively and efficiently organize and manage common supply and service activities, which consume 60 percent of the annual military budget. The subcommittee gave special attention to progress made in reducing waste in these activities, where, as Chairman Douglas has stated, "so much precious economic lifeblood has gone."

The relationships between the General Services Administration (GSA) which has certain Government-wide responsibilities and the Department of Defense (DOD) were discussed at considerable length in the 1960 hearings as was the role of the Bureau of the Budget (BOB), the representative of the President, in adjudicating differences between executive agencies. The ensuing subcommittee report of October 1960 contained a number of specific recommendations which the subcommittee thought would induce improved management.

Comments on the 1960 recommendations (see app. 3, p. 46, for full text) after 3 years of experience, and further recommendations follow:

PART I

COMMENTS ON PREVIOUS RECOMMENDATIONS

Recommendation No. 1. Need for a Common Supply Agency at the OSD Level

Secretary McNamara created the Defense Supply Agency (DSA) under the authority of the McCormack-Curtis amendment effective October 1, 1961, and it became operational January 1, 1962.

This action consolidated several single manager and service agencies and numerous other activities into a Defense Supply Agency. This action was long sought by advocates of improved management including the Second Hoover Commission in the costly supply and service areas of the DOD. It is in these areas that 60 percent or more of the military budget is expended. These have also been the areas of the largest duplications and waste.

The creation of DSA did not superimpose a "fourth service" or another service upon the existing ones. It consolidated many related parts into one agency with a reduction of 3,700 personnel, several depots and other facilities. (See pp. 23-25.)

FURTHER RECOMMENDATIONS

A review should be made as soon as possible of the 3 million supply items retained by the military services for management before DSA was established. Those items subject to common management as determined by the Secretary of Defense after consultation with all concerned, including industry, should be transferred to DSA for management.

DSA should also be given greater control over the influx of items into the supply systems to prevent the unnecessary duplications which are now occurring (pp. 30, 64). Duplicate catalog numbers and especially those based upon the manufacturers' numbers lead to great loss in procurement, stocking, distribution and eventually through surplus disposal.

DSA also should be provided the research and development, and engineering capacity required to do an adequate job of standardization, cataloging, item reduction and testing. (See pp. 33, 36.)

Recommendation 2. Bid Procedure

The subcommittee's report of October 1960 stated:

Every effort should be made to use the time-honored, formally advertised, full competitive bid procedure for procurement in lieu of the subjective negotiation procedures. This applies also for procurement of components used in various end items by Government agencies and cost-plus contractors. (See app. 3, p. 46.)

The report also stated in reference this subject: ¹

METHODS OF CONTRACTING

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

COMPETITIVE VERSUS NEGOTIATED BIDS

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

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

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

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

The testimony of Secretary McNamara ² and Assistant Secretary Morris strongly supports competitive procurement over the noncompetitive types stating that every dollar of procurement moved into the competitive category saves 25 cents to the taxpayer.

The testimony was also to the effect that competitive procurement increases the probability of small business participation on an equal footing under the free enterprise concept with no subsidies needed nor wanted by small business.

The proved advantages of competitive bidding, especially formally advertised, are so overwhelming and conclusive that they give validity to the intent of Congress that such procedure should provide the basic rule and negotiated procurement the exception. ³

But this has not been the case and negotiated procurement for fiscal 1962 for the DOD as a whole was 86.9 percent of total purchases of \$26.147 billion though down slightly from fiscal 1961. For the period 1951-62 the annual average percentage of negotiated procurement was 87.6 percent as detailed in the following table.

¹ "Economic Aspects of Military Procurement and Supply," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 86th Cong., 2d sess., October 1960, p. 23.

² "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963, pp. 22-25, 40-42.

³ Sec. 2-C, 3, Public Law 413, 80th Cong., 2d sess., Armed Services Procurement Act of 1947.

TABLE 1

Net value of military procurement actions, with business firms for work in the United States, classified by method of procurement, fiscal years, 1951-62

Fiscal year	Total net value (millions)	Formally advertised procurement		Negotiated procurement	
		Millions	Percent	Millions	Percent
1951.....	\$30,823	\$3,720	12.1	\$27,103	87.9
1952.....	41,482	4,479	10.8	37,003	89.2
1953.....	27,822	3,089	11.1	24,733	88.9
1954.....	11,448	1,789	15.6	9,659	84.4
1955.....	14,930	2,386	16.0	12,544	84.0
1956.....	17,760	2,815	15.9	14,935	84.1
1957.....	19,133	3,321	17.4	15,812	82.6
1958.....	21,827	3,115	14.3	18,712	85.7
1959.....	22,744	3,089	13.6	19,655	86.4
1960.....	21,302	2,978	14.0	18,324	86.0
1961.....	22,992	2,770	12.0	20,222	88.0
1962.....	26,147	3,412	13.1	22,735	86.9
Total, 1951-62.....	278,400	36,963	13.3	241,437	86.7

Source: "Military Prime Contract Awards and Subcontract Payments, July-September 1962," Office of the Secretary of Defense.

DSA on the other hand reported for the last 6 months of fiscal 1962 (its first 6 months of existence) that its procurement by formal advertising was 40.4 percent and 52.7 percent by negotiated price competition. These purchases were generally for standard, common use items. However, as indicated elsewhere in this report, much more can be done to standardize items coming into the supply systems, thus bringing them under the management of the DSA and subject to a greater degree of competitive procurement.

FURTHER RECOMMENDATIONS

Considering the great advantages that accrue to the Government, the public and Government personnel from competitive procurement and especially formally advertised procurement, it is recommended that a much greater effort be made along these lines.

Recommendation 3. BOB's Role in Consolidating Supply and Service Activities

The subcommittee hearings in 1960 revealed that the BOB had been relatively inactive in pressing for improved management in common military supply and service activities. This was surprising in view of the magnitude of the problem in terms of resources, both manpower and dollars, the proved waste in these areas, the BOB's command position in the executive branch, its responsibilities as the management arm of the President, its control of the budget, and its access to necessary information.

By way of contrast, the GAO as top management agency in the legislative branch, though in a less favorable position to obtain needed data, was very actively engaged in investigating and reporting the deficiencies in the DOD's supply and service areas. The subcommittee report of October 1960 stated:⁴

⁴ "Economic Aspects of Military Procurement and Supply," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 86th Cong., 2d sess. October 1960, p. 62.

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

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

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

FURTHER RECOMMENDATIONS

The BOB should lend its full support and prestige in assisting in the development of a Federal-wide property and administrative services program as contemplated by existing legislation (pp. 20, 21).

Recommendation 4. Role of GSA Vis-a-Vis DOD (DSA)

On June 7, 1963, the DOD and GSA signed a memorandum of understanding with respect to the management of handtools and paint. Both parties appear satisfied with the agreement. Details of the transfer of activity from DOD to GSA are being worked out with the BOB which played a major role in the preparation of the agreement (app. 4, p. 47).

FURTHER RECOMMENDATIONS

While general plans should be made for the establishment of a genuine Federal supply system as contemplated by the Federal Property and Administrative Services Act of 1949 (see p. 20), it is recommended that both GSA and DSA consolidate and streamline the programs they now have for a reasonable period of time and no additional major transfers be made between them during the period. DSA is only 18 months old and it will be most difficult to maintain a high level of morale if the Agency is under constant change or threat of change.

Recommendation 5. Statutory Authority for Commerce Department Relative Surplus Property Disposals

The Commerce Department advises that satisfactory cooperative relationships exist with the executive agencies and particularly the DOD to insure against disposals of surplus property in such a way as to adversely affect the economy.

The Department furnished the subcommittee⁵ with a listing of large-scale disposal actions which had been referred to them for advice. Evidently their advice had been acceptable to the disposing agency in all cases.

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

⁵"Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963, pp. 347-354.

FURTHER RECOMMENDATIONS

So long as voluntary agreements are achieving the desired results, there appears to be no need to amend existing legislation which places the Commerce Department in a purely advisory role.

Recommendation 6. Consultations Among Executive Agencies Relative to More Equitable Allocation of Defense Business

The information presented to the subcommittee in 1960 was most convincing, as it is today, that the magnitude of defense business, whether in procurement, shipping, storing, disposal, closing facilities, etc., vitally affects the national and local economies. The division of the shipment of household goods between large and small van lines was a vital problem in 1958. The division of business between scheduled and nonscheduled airlines, the repair and maintenance of ships, the use of this port or that port, the awarding of a contract for planes, or missiles, tanks, M-14 rifles, etc., are of great economic and social importance to many individuals, communities, States, and regions. Even the prior receipt of the information concerning an award, or discontinuance of a facility, is considered important. The announced intent of the Government to buy, sell, or ship may have an impact on the market.

The subcommittee was of the opinion that the how, when, where, and who of these defense business transactions running from dollars to billions are of such importance that the executive agencies responsible for business, large and small, and employment (labor) should be brought into consultation on transactions affecting their responsibilities.

FURTHER RECOMMENDATIONS

None at this time.

Recommendation 7. Use of Stock Funds

Evidence before the subcommittee in 1960 revealed a wide disparity in the use of stock funds among the services, that large losses had occurred through their use and misuse, and that there was not an understanding as to when they should or should not be used.

Later, the GAO was requested to study the use of stock funds and make recommendations accordingly.⁶ The GAO made two studies and reports which reveal imprudent, improper, even illegal use of stock funds in the DOD but there has not yet been a decision as to their proper use. GAO witnesses testified on March 29, 1963, that military inventories under stock funds suffered from the same lack of management as those not under the funds.

FURTHER RECOMMENDATIONS

The previous recommendation remains valid: "BOB, DOD, and GAO should come to a decision as to the proper use of stock funds and rescind funds not absolutely justified." The GAO should continue with its studies and investigations.

⁶ Ibid., pp. 121, 160.

Recommendation 8. Need for Uniform Patent Legislation

The need for uniform legislation for patents resulting from Government research and development and procurement is the subject of considerable discussion by other committees at the present time.

FURTHER RECOMMENDATIONS

None at this time.

Recommendation 9. Review All Common Service Activities Pursuant to the McCormack-Curtis Amendment

The McCormack-Curtis amendment to the National Security Act of 1947, as amended, states:

Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate. For the purposes of this paragraph, any supply or service activity common to more than one military department shall not be considered a "major combatant function" within the meaning of paragraph (1) hereof.

This legislation authorizes the Secretary of Defense to make studies of common supply and service activities in the DOD and when he determines that effectiveness, economy, or efficiency will result he shall provide for the carrying out of the activity common to more than one department by a single agency or such other organizational entities as he deems appropriate.

The Comptroller General on May 25, 1962, rendered a decision stating in part:

From the language of the statutory provision referred to and its legislative history, it is clear that the Secretary of Defense is not only authorized to provide for the consolidation of supply management administration but that he has a congressional mandate to do so.

The establishment of the Defense Supply Agency as the organization to centrally control the supply management of textiles and clothing as well as other common use items is entirely consistent with the literal wording of the statute and its intended purpose.⁷

House Majority Leader McCormack carefully explained the amendment he introduced⁸ and made it clear that it covered all common service activities including supply. He explained that the common supply and service activities utilize approximately 60 percent of the annual military appropriations. The Secretary of Defense therefore has the same authority and mandate over other common service activities as he has regarding supply.

The press of major reorganization and many other matters has made it impossible for the Secretary of Defense to make determinations with respect to all the common service activities in the DOD. Several have, however, been brought under consolidated management, i.e., land, sea, and air traffic, and communications, and intelligence; others are under study.

⁷ "Background Material on Economic Aspects of Military Procurement and Supply," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, March 1963, p. 47. See also "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963, pp. 19, 200, 201, 244, 245.

⁸ See Congressional Record, June 12, 1953, pp. 9927-9932.

With respect to a general review of common service activities, the subcommittee has been advised by the Assistant Secretary of Defense (I. & L.):

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 81, 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.

The need for a review of common activities both DOD-wise and Government-wise was highlighted by a discussion between Chairman Douglas and Deputy Budget Director Staats during subcommittee hearings⁹ on weather research:

Chairman DOUGLAS. The one question I wanted to ask was in the field of weather. How many agencies of Government are conducting research on the weather?

Mr. STAATS. As I recall, there is a total of about 14 agencies of the Government.

Chairman DOUGLAS. Would you name some of them?

Mr. STAATS. The Weather Bureau, of course, the National Aeronautics and Space Administration, the Federal Aviation Agency, the several services of the Department of Defense.

Chairman DOUGLAS. The three or four services?

Mr. STAATS. In this case, three services, plus research and development activities which are conducted centrally within the Department of Defense.

Chairman DOUGLAS. We are up to seven.

Mr. STAATS. The National Science Foundation; the Department of Agriculture.

Chairman DOUGLAS. That is nine.

Mr. STAATS. I have about run out of examples. I think undoubtedly the overall figure is approximately correct. I would be happy to supply the remainder.

(The information follows:)

"In addition to the agencies named above, the following are engaged in meteorology programs: The Atomic Energy Commission, the Bureau of Standards, and the Departments of Treasury (Coast Guard), Interior, and Health, Education, and Welfare. A total of 14 agencies is involved."

⁹ "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 23, 29, Apr. 1, 1963, p. 234.

Chairman DOUGLAS. Do you have any estimate as to the total amount spent on weather research?

Mr. STAATS. We can supply you with that figure. It so happens that we are currently making a review of the organization of the weather activities of the Government with the view to trying to centralize as much as possible the basic research work.

(The information follows:)

"The following table indicates the new obligational authority for Federal meteorological research and development programs as stated in the President's budget for fiscal year 1964 at pages 400-401. (Includes both basic and applied research.)

TABLE 2

"New obligational authority for research and development in meteorology

[In millions of dollars]

"Agency	1962 actual	1963 estimate	1964 estimate
Department of Agriculture.....	1.2	1.3	1.4
Atomic Energy Commission.....	3.9	4.6	4.6
Department of Commerce:			
Bureau of Standards.....	.3	.3	.4
Weather Bureau.....	8.9	10.8	12.8
Department of Defense:			
Advanced Research Projects Agency.....	1.7		
Army.....	9.2	11.2	12.6
Navy.....	4.1	3.7	4.4
Air Force.....	8.8	9.1	8.9
Federal Aviation Agency.....	8.8	4.7	4.3
Department of Health, Education, and Welfare.....	7.3	10.0	12.1
National Aeronautics and Space Administration.....	.8	.9	1.1
Department of the Interior.....	34.4	57.3	63.7
National Science Foundation.....	5.2	8.8	12.3
Total.....	94.6	122.7	138.6"

Mr. STAATS. We recognize that the utilization of weather data is going to have to always be, like statistics or any other data, by a large number of agencies who need it in their day-to-day operations.

Chairman DOUGLAS. But these 14 agencies are all conducting basic research?

Mr. STAATS. Not all 14 agencies. My statement related both to the agencies engaging in research and with respect to utilization of this research.

Chairman DOUGLAS. How many do you think are engaged in basic research on weather?

Mr. STAATS. At least NASA, the Weather Bureau, the National Science Foundation, and the Defense Department. These are all engaged in basic research.

The question is whether this can be centralized to give greater effectiveness at less cost to the Government.

Chairman DOUGLAS. It would seem to me this could be true. Do you intend to pursue this actively?

Mr. STAATS. Yes. We have a report which is about at the completion stage at the moment. In fact, it is before the agencies for their views at the present time.

Chairman DOUGLAS. That is fine. Thank you very much, Mr. Staats.

Mr. STAATS. Thank you very much.

The subcommittee fully recognizes that some activities are susceptible to centralized management, others are not. But the first step in arriving at solutions is to identify the problem area. For this reason the subcommittee has sought to obtain a listing of common

service activities in the DOD that fall within the intent of the McCormack-Curtis amendment. A partial list has been made:

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

FURTHER RECOMMENDATIONS

The subcommittee recommends that within the near future as a part of the cost reduction program a systematic program should be pushed in the DOD to establish priorities for the study and analysis of common service activities and determinations made as to the most appropriate way to manage each in terms of effectiveness, economy, and efficiency as contemplated by the McCormick-Curtis amendment.

The Budget Bureau and GSA should keep in close liaison with the DOD program to insure that Government-wide application is given to activities warranting such action.

CONSOLIDATION OF COMMON SERVICES HOSPITAL FACILITIES

Chairman Douglas raised the question as to what action has been taken to consolidate hospital facilities.¹⁰

Chairman DOUGLAS. Have you been able to effect any consolidation of hospital facilities?

Mr. MORRIS. Sir, this again is not a responsibility of our office. I know of no efforts that have been made in this direction during the past 2 years.

Chairman DOUGLAS. That is, we still have Army hospitals, Navy hospitals, Air Force hospitals; is that true?

Mr. MORRIS. I am sure there are joint services, sir, in specific locations, but in terms of a major integrated effort such as the Defense Supply Agency, there has been no such move.

Chairman DOUGLAS. Some years ago, and my information is not recent, I found that we would have two or three service hospitals very close together, each of them operating at only partial capacity, but with a full staff, and the suggestion naturally occurred, Why could you not close down one of the hospitals or have it used for civilian use and have members of the four services treated in one hospital?

Mr. MORRIS. That is, in fact, sir, the basis of requirement planning for new construction in given locations today.

Chairman DOUGLAS. For new construction?

Mr. MORRIS. Yes, sir.

¹⁰ Ibid., p. 56.

Chairman DOUGLAS. What about existing surplus hospitals?

Mr. MORRIS. I don't feel competent to speak in depth on it, sir.

Chairman DOUGLAS. In other words, there is a limit to the number of struggles that you can take on at any one time.

Mr. MORRIS. Yes, sir.

Chairman DOUGLAS. I have never seen why there should not be a consolidated Medical Corps or, for that reason, a consolidated Chaplain Corps. I never thought there was Navy religion and Army religion and Air Force religion or that you had to have three different medical services. I guess three different dental services.

Mr. MORRIS. I believe so, sir.

Chairman DOUGLAS. I thought the teeth of soldiers, sailors, and aviators were not substantially dissimilar.

Mr. MORRIS. As you know, Mr. Chairman, there is a continuing effort to study all feasible possibilities for integration and consolidation.

Chairman DOUGLAS. I think there is paydirt here and perhaps there is room for future effort.

Since this colloquy occurred, the Comptroller General of the United States sent Report B-133226 of June 28, 1963, to the Congress. The letter of transmittal contains a synopsis of the report.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, June 28, 1963.

B-133226.

To the President of the Senate and the Speaker of the House of Representatives:

Enclosed is our report on unnecessary costs to be incurred under the military departments' proposals for continued operation of separate Army and Navy hospitals in the San Francisco Bay area, California.

Our review disclosed that the Department of Defense will incur unnecessary annual costs of about \$8.2 million under a plan for the continued separate operation of Letterman Army and Oakland Naval Hospitals in the San Francisco Bay area. In addition, the plans being considered by the Department of Defense for construction of separate new hospitals at these locations will result in costs of about \$10 million more than necessary to provide adequate hospital facilities for joint service use. These unnecessary expenditures can be avoided by constructing a single modern hospital in the Oakland-Alameda area and an addition to the Travis Air Force Hospital, and by effective joint use of these facilities. Effective joint use can be achieved by improved management of the patient workload through (1) eliminating the unnecessary transfer of patients to the San Francisco Bay area, (2) making greater use of available civilian hospitals for the care of dependents, and (3) eliminating the requirement for construction of facilities to care for retired personnel, their dependents, and others entitled to treatment only if space is available.

We proposed to the Secretary of Defense that necessary replacement of military hospital facilities in the San Francisco Bay area be accomplished by a single replacement hospital of 1,000 beds and a 200-bed addition to the modern hospital at Travis Air Force Base in lieu of the services' proposals for replacement and separate operation of the present Letterman and Oakland Hospitals. We proposed, also, that the Secretary of Defense require the military departments to provide more adequate data on the operation of military hospitals so that the real needs for military hospital facilities could be more accurately and consistently determined.

In its reply, the Department of Defense stated that a thorough analysis of the total requirements for hospital services and the best methods of satisfying them in the most economical manner was needed before authorization for either the Army or the Navy project would be requested from the Congress. The Department of Defense also agreed that bed space for retired personnel should not be included in computing hospital construction requirements and that more adequate data on the use of hospital facilities should be used in determining requirements.

Our discussions with the principal medical officials of the three services disclosed considerable reluctance on the part of the Army and Navy medical officers to make joint use of facilities, either presently available or planned for construction, although each of the services expressed full confidence in the quality of medical care provided by the other. Because of this attitude, the Department of Defense is likely to encounter the same lack of cooperative effort on the part of the individual

services toward the more effective and economical joint use of medical activities as we disclosed in our reports on the duplication of development effort (B-146713 and B-146714, May 1962), on failure to standardize on certain common items (B-133177, October 1961), and on the interservice utilization of excess supplies of various items (B-133313, May 1960, and B-133336, November 1960).

In view of the magnitude of the possible savings, we are recommending that the Secretary of Defense take the necessary actions to consolidate military hospital services in the San Francisco Bay area into one modern replacement hospital of 1,000 beds in the Oakland-Alameda area and the modern facility at Travis Hospital with an addition of 200 beds. Further, we are recommending that the Secretary of Defense require the military departments to improve the management of the patient workload to accomplish more effective joint utilization of existing hospital facilities and to assure realistic planning of military hospital construction on the basis of full joint use of all available military hospital facilities.

Copies of this report are being sent to the President of the United States, the Secretary of Defense, and the Secretaries of the Army, Navy, and Air Force.

JOSEPH CAMPBELL,
Comptroller General of the United States.

RECOMMENDATION

A DOD-wide and a Government-wide study should be made at an early date of medical services and the related supply activities. The BOB should take the lead in instituting and coordinating this study.

CONSOLIDATION OF COMMON SERVICES—AUTOMATIC DATA PROCESSING (ADP)

Comptroller General Campbell called the subcommittee's attention to the lack of control over the use of automatic data processing equipment in the Government and particularly in the defense agencies.¹¹

Our reviews of automatic data processing developments in the Federal Government have indicated a need for more effective and economical use of automatic data processing equipment in Government operations, a need for more positive long-range planning, a desirability of purchasing rather than leasing equipment, and a need for central management to direct and coordinate a Government-wide program of procurement and utilization.

In recent years there has been a very sizable expansion in the use of automatic data processing equipment in operations of the Department of Defense. Costs related to these programs have increased substantially in the past 3 or 4 years. For example, at the end of fiscal year 1959, 283 computer systems were installed in defense activities at an annual cost of \$168 million. By June 30, 1963, 750 computer systems will be installed. Total Department of Defense automatic data processing costs for fiscal year 1963, including costs for punched-card equipment, will amount to \$456 million. These costs are exclusive of amounts for equipment installed for military tactical operations, intelligence, surveillance systems, and certain other classified activities in the Department of Defense.

The Comptroller General's recommendations were summarized in this way:¹²

Summary

We believe there is great potential for improving Government management of automatic data processing equipment. To realize the full potential requires expert management planning and coordination of both procurement and utilization of such equipment. We believe this function could best be performed by a central management office established in the executive branch of the Government. A central management office is needed to exploit the possibilities of Government-wide integration of systems and to plan for their development. And, finally, a central management office is needed for effective exchange of information among agencies and between the Government and industry.

¹¹ *Ibid.*, p. 138.

¹² *Ibid.*, p. 140.

Within each agency adequate feasibility studies, advance preparation for conversion to automatic equipment, and personnel training are highly important to promote the maximum degree of efficiency, economy, and effectiveness in the administration and management of costly facilities. Effective leadership by a centralized authority within the Department of Defense could minimize wasteful duplication of effort among the services by preventing repetitive explorations by different installations into the same or similar applications, some of which may have been already developed.

RECOMMENDATION

Chairman Douglas introduced S. 1577 on May 21, 1963 (app. 5, p. 49). This bill is intended to stimulate action on a common service activity that Government-wide costs around one-half billion dollars annually and which offers possibilities of savings of \$100 million annually according to estimates from the Comptroller General. The bill as written would "Authorize the Administrator of the General Services to coordinate and otherwise provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies."

This bill is similar to H.R. 5171 (Brooks), Report No. 428, and it is also noted that the Subcommittee on Census and Government Statistics of the House Committee on Post Office and Civil Service held hearings on the "Use of Automatic Data Processing Equipment" in October 1962.

It is recommended that the appropriate legislative committee (Government Operations) conduct prompt and thorough hearings on S. 1577 and other related bills and report its findings in order that the objectives pointed out by the Comptroller General may be achieved.

DISCONTINUING NONESSENTIAL INSTALLATIONS AND ACTIVITIES

President Kennedy has given great impetus to a Government-wide cost reduction program through public pronouncements:

If the Government is to retain the confidence of the people, it must not spend more than can be justified on grounds of national need or spent with maximum efficiency * * *.¹³

And—

Secretary McNamara is undertaking a cost reduction program expected to save at least \$3 billion a year in the Department of Defense, cutting down on duplication, and closing down nonessential installations. Other agencies must do the same.¹⁴

And—

* * * No budget will be submitted by this administration which does not continue a persistent and surprisingly unpopular program of cutting costs, increasing efficiency, and weeding out obsolete activities.¹⁵

With regard to closing or reducing in scope nonessential installations as a part of the DOD cost reduction program, Secretary McNamara stated:¹⁶

¹³ Address of President Kennedy to the American Bankers' Association, Washington, D.C., Feb. 25, 1963.

¹⁴ Remarks of President Kennedy to the Economic Club of New York, Dec. 14, 1962.

¹⁵ *Ibid.*

¹⁶ "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963, p. 31.

14 IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES

Turning to another subject, an equally important part of our cost reduction program is our effort to reduce the day-to-day costs of operating the Defense Establishment. One important aspect of this effort has been our program for the closing of unneeded bases and installations. To date, we have announced plans to close or reduce in scope some 330 activities, of which 72 are located overseas and 258 within the United States. As Assistant Secretary Morris will report in detail later, good progress has been made in carrying out these announced closures and continuous studies are being made to identify additional installations and bases that can be reduced or closed in future years. We expect by the end of fiscal year 1965 to have initiated actions which will eventually save over \$440 million per year. Progress to date is shown in the table below:

Actions announced as of Dec. 31, 1962

	<i>Total</i>
Number of locations	330
Acres to be excessed	274, 000
Acquisition cost	\$1, 922, 000, 000
Personnel to be released	44, 923
Annual savings when action completed ¹	\$70, 000, 000

¹ Many actions require 2 or 3 years to complete.

Thus you see that there are 330 activities or locations which have been closed or reduced in scope. They cover 274,000 acres which we have declared to be excess to our needs. The installations which we have closed or declared excess to our needs had an original acquisition cost of just short of \$2 billion. By closing them or reducing the scope of their activity we have saved about 45,000 people. We have either taken them off the rolls entirely or transferred them to other areas for which we would have had to hire other people. The net result will be savings of \$270 million per year when these are fully completed.

In further elaboration of the benefits to be derived from the disposition of nonessential installations, Secretary McNamara at another hearing stated:¹⁷

Three important benefits result from these actions:

(i) There is a reduction in annual operation and maintenance costs. Savings reflected in the fiscal year 1964 budget for actions already announced are \$106 million.

(ii) Military personnel are released for other tasks. Through fiscal year 1964, over 11,000 military personnel will have been released for other essential assignments by base closure or reduction actions already announced. The military pay and allowance costs of these personnel are estimated at \$57 million. Thousands of additional military personnel will be released by similar actions for assignment to other tasks during the next 3 years.

(iii) The facilities released are turned to productive uses. The Treasury benefits directly from the proceeds of sale. When private interests acquire the property, a tax revenue benefit accrues to local communities and States. When other Government agencies claim and use the property, it becomes unnecessary for them to request funds for new property acquisitions.

Secretary Morris (Installations and Logistics) gave more detail of the DOD program for utilization of facilities and the use of private enterprise.¹⁸

¹⁷ DOD appropriations hearings, fiscal year 1964, House of Representatives, 88th Cong., 1st sess., pp. 202-203, pt. 1.

¹⁸ "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963, pp. 46-47.

C. UTILIZATION OF FACILITIES—USE OF PRIVATE ENTERPRISE

As you know, Mr. Chairman, we have been actively engaged in a DOD-wide program to reduce or terminate unnecessary operations during the past 2 years. This has resulted in a continuous review and evaluation, on a worldwide basis, of our base and facilities holdings against long-range military requirements. Secretary McNamara has reported to you the results achieved to date.

Included in this program are periodic reviews of those commercial or industrial-type activities falling within the purview of BOB Bulletin 60-2.

Principal attention has been given during the past 2 years to releasing unused plant capacity for productive use in the civilian economy. The benefits derived from this program include reduced defense expenditures for maintenance, revenue to the Treasury from the sale of such plants, and increased employment for local communities. In calendar year 1962, GSA sold 26 defense industrial plants at their fair market value of \$49 million. These plants are now employing 27,000 workers, instead of lying idle or experiencing only partial utilization.

An interesting example of this program is the recently announced plan to dispose of the Naval Ordnance Plant, York, Pa. This plant is producing at approximately one-third of its capacity, and its backlog of work is steadily declining. The Navy estimates that by 1966, production requirements at this plant will be largely completed, and there will be no further need to continue the plant in operation. Rather than being faced with another situation similar to the Washington Gun Factory, where it became necessary to lay off the production work force, the Navy considers that the York plant should be disposed of now, while it still had a backlog of work in progress. This will permit the organization which purchases the plant to take over the present plant employees as their own work force; complete the remaining Navy work which is now in progress; continue the plant in operation for any additional Government work on which they are the successful bidder; and begin utilizing the idle capacity for production of civilian-type goods.

We have just issued a new directive on commercial-industrial activities which reaffirms our policies under BOB Bulletin 60-2, and provides for cyclic reviews of all such activities not less than once every 3 years. It is our belief that we should continue ownership and operation of such facilities only when it is clearly essential to do so in the interest of military readiness, or when it is infeasible or uneconomic to contract for such goods or services from private industry. With your permission, I would like to submit our new policy directive on this subject for the record.¹⁰

The DOD has made a great start in closing nonessential installations and facilities as a part of its cost reduction program. In giving due credit, it should be noted that this is in essence "a budget balancing program" since it reduces expenditures, increases funds through sales, and adds to the permanent tax base.

RECOMMENDATION

An intensified review should be made Government-wide of real property holdings which are not utilized or full-utilized or which would be of greater public benefit if placed on the tax rolls.

MILITARY COMMISSARIES—PX's

Every citizen of the United States is familiar with the large, efficient and competitive retail stores and chains in this country. The ranking of the 20 largest retailers in 1961 and 1962 was:

¹⁰ *Ibid.*, pp. 418-436.

TABLE 3

Top 20 retailers—How they fared in 1962

[Dollars in thousands]

	Sale			Earnings			Profit margin (percent)	
	1961	1962	Percent change	1961	1962	Percent change	1961	1962
Atlantic & Pacific Tea.....	\$5,240,315	\$5,310,544	+1.3	\$57,464	\$60,206	+4.8	1.1	1.1
Sears, Roebuck.....	4,267,678	4,603,319	+7.9	220,097	233,197	+6.0	5.2	5.1
Safeway Stores.....	2,538,032	2,509,644	-1.1	36,602	39,271	+7.3	1.4	1.6
Kroger Co.....	1,842,343	1,947,571	+5.7	16,953	20,424	+20.5	.9	1.0
J. C. Penney Co.....	1,553,506	1,701,333	+9.5	51,739	54,804	+5.9	3.3	3.2
Montgomery Ward.....	1,325,941	1,425,188	+7.5	15,859	20,416	+28.7	1.2	1.4
F. W. Woolworth.....	1,061,402	1,110,427	+4.6	46,405	48,479	+4.5	4.4	4.4
Acme Markets ¹	1,034,879	1,081,061	+4.5	13,330	13,061	-2.0	1.3	1.2
Food Fair.....	923,224	² 1,000,000	+8.3	11,056	⁴ 11,000	-5	1.2	1.1
National Tea.....	888,853	979,049	+10.1	9,315	9,118	-2.1	1.0	.9
Federated Department Stores.....	³ 856,356	³ 896,699	+4.7	36,837	37,186	+9	4.3	4.1
Winn-Dixie.....	764,931	803,260	+5.0	16,620	17,899	+7.7	2.2	2.2
Allied Stores.....	713,464	770,804	+8.0	13,445	12,468	-7.3	1.9	1.6
First National Stores.....	³ 711,304	^{3,4} 745,000	+4.7	8,172	⁴ 7,600	-7.0	1.1	1.0
May Department Stores.....	708,481	709,652	+2	23,409	24,790	+5.9	3.3	3.5
W. T. Grant.....	574,502	686,263	+19.5	8,359	9,004	+7.7	1.5	1.3
Grand Union.....	³ 640,622	³ 630,530	-1.6	7,153	5,054	-29.3	1.1	.8
Jewel Tea.....	³ 552,249	³ 617,656	+11.8	10,029	10,306	+2.8	1.8	1.7
R. H. Macy.....	³ 533,766	³ 566,716	+6.2	9,976	9,655	-3.2	1.9	1.7
McCrory Corp.....	409,235	553,852	+35.3	5,353	3,812	-28.8	1.3	.7

¹ Formerly American Stores Co.² Company estimate.³ 52 weeks 1962; 53 weeks 1961.⁴ Business Week estimate.⁵ 53 weeks 1962; 52 weeks 1961.

Source: Business Week, June 8, 1963.

However, few people realize that the military commissaries (essentially grocery stores) and post exchanges (for small miscellaneous personal items) each rank high with the largest retailers in the United States. Data supplied by the DOD for the last reporting period:

TABLE 4

Sales of Commissaries and PX's

	United States	Overseas	Total
Commissary sales.....	\$659,385,000	\$219,901,000	\$879,286,000
PX sales.....	778,700,000	600,300,000	1,379,000,000

NOTE.—Ship's stores sales were \$43,300,000.

It will be noticed, therefore, that total sales of the PX's ranks them as the Nation's 7th largest retailer and the commissaries the 12th largest. The combined volume of the PX's and commissaries rates them the fourth largest retail enterprise of the Nation.

With respect to commissaries in the continental United States, the DOD Appropriation Act since fiscal 1954 has carried restrictive, authorizing language:

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.

Elaborate criteria have been developed by the Office of the Secretary of Defense governing the Secretary's certification as to establishment or discontinuance of commissaries (app. 6, p. 50). The basis for continuation of commissaries for calendar year 1963 is shown on the following chart.

TABLE 5
Basis for continuation of commissaries for calendar year 1963

Service	Adequacy, convenience, and price	Convenience and price	Price	Adequacy and price	Total
Army.....	15	49	12	3	79
Navy.....	4	49	7	0	60
Marine Corps.....	5	4	1	0	10
Air Force.....	0	94	38	0	132
Marine Corps grocery sections.....	0	1	3	0	4
Total.....	24	197	61	3	285

It is to be noted that for the eight commissaries located in the Metropolitan Washington area (app. 6, p. 51) that six were continued in operation in 1963 on a "price differential" basis solely and two on the basis of "convenience and price differential."

"Commercial price is considered to be reasonable when it does not exceed the cost to the commissaries by more than 20 percent" (app. 6, p. 52).

RECOMMENDATION

The military commissaries and post exchanges (PX's) are big businesses and have a considerable impact upon the economy and perhaps on the balance-of-payments problem.

The GAO as an arm of the legislative branch is therefore requested to make a detailed investigation and report on each class for the consideration of the subcommittee by March 1, 1964. It is expected that all facets will be investigated, i.e., legal background, pricing, Government contributions in land, facilities, staffing, procurement, etc., users on and off bases, review of establishment and discontinuance data, etc.

It is expected that GAO staff will consult with DOD staff who are working on the commissary aspects of project 81 (p. 8).

The commissary and PX operations of other Federal agencies should also be studied and reported on at the same time.

DISCONTINUING NONESSENTIAL COMMERCIAL-INDUSTRIAL ACTIVITIES

Chairman Douglas wrote to the Budget Director on March 12, 1963: ²⁰

The subcommittee also desires to be brought up to date * * * with regard to the Bureau's program on commercial-industrial activities under Bulletin 60-2. (See app. 7 for text.)

Deputy Budget Director Staats referred to the criteria governing commercial-industrial activities and the policy stated in the BOB Bulletin and to the exceptions thereto:

²⁰ Ibid., p. 192.

CRITERIA GOVERNING COMMERCIAL-INDUSTRIAL ACTIVITIES OF GOVERNMENT

The criteria under which decisions are made with respect to commercial-industrial activities of the Government are included in Bureau of the Budget Bulletin 60-2. The pertinent parts of that bulletin are as follows:

Policy.—It is the general policy of the administration that the Federal Government will not start or carry on any commercial-industrial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels.

Exceptions.—Because the private enterprise system is basic to the American economy, the general policy establishes a presumption in favor of Government procurement from commercial sources. This has the twofold benefit of furthering the free enterprise system and permitting agencies to concentrate their efforts on their primary objectives. However, in specific situations certain factors may make it necessary or advisable for a Government agency to produce goods or services for its own use. In these situations the burden of proof lies on the agency which determines that an exception to the general policy is required. A finding must be made that there are compelling reasons for Government provision of a product or service before an exception is authorized. All relevant factors must be taken into account, including pertinent economic and social aspects of public policy, even though they may not be the immediate concern of the agency or official directly responsible for the particular activity.

Compelling reasons for exceptions to the general policy include national security; relatively large and disproportionately higher costs; and clear unfeasibility.

The Budget Bulletin 60-2 makes a good statement of policy including the truism that the private enterprise system is basic to the American economy and, therefore the presumption that the Government will generally procure its needs from commercial sources.

However, Mr. Staats admits that confusion arises when an exception is made to the policy on account of costs. How much more should the Government pay commercially than it costs the Government to make the item? Bulletin 60-2 states, that "relatively large and disproportionately higher costs" and "clear unfeasibility" are bases for exceptions but does not define these terms.

Mr. Staats also advised the subcommittee that the bulletin is under revision in order to more clearly define the governing criteria.

In the opinion of the subcommittee, the discussion of relative costs may be academic and the development of an elaborate cost-keeping system to prove costs for ordinary products is impossible and unneeded.

There are 4 million items in the Federal catalog system. Undoubtedly, the Government gets good buys on some items and poor even unconscionable on others. But it does not follow that the Government should begin making the items upon which it is being overcharged. There are available constitutional means to solve such problems.

There is current discussion that the Government has been paying too much for certain antibiotics, particularly tetracycline. If so, it may be possible to draft needed scientists, set up a plant and begin making the drug. The same could be true for aspirin. Certain military officers have stated that they could build trucks cheaper than General Motors. Many commercial-type items have been produced by the military agencies and still are. If there is a competitive product or service needed, why shouldn't it be produced by taxpaying industry with the market setting the price? If there is collusion in pricefixing by industry, why shouldn't the Government's efforts be directed through the proper role of Government to develop competitive prices?

The subcommittee agrees with the Budget Bureau's policy statement that "the Federal Government [should] not start or carry on any commercial-industrial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels" and that "the private enterprise system is basic to the American economy."

It should follow that a basic economic principle should not lightly be disregarded. But the evidence is that there has been widespread disregard of the principle by its protector, the largest buyer in the world, the Federal Government itself.

RECOMMENDATION

An intensive two-way program should be monitored by the Budget Bureau under revised Bulletin 60-2 which is soon³ to be issued. First, all new activities proposed to be started should be carefully screened on the basis of essentiality. Second, those in existence should be identified, listed, and eliminated or curtailed in scope. Again, the basis for continuation should be essentiality.

The subcommittee also recommends that a vigorous recruiting and training program be instituted so the Government will have the in-house capability to obtain what it needs from industry and know that what is received meets the specifications.

PART II

GENERAL REVIEW OF PROGRESS SINCE 1960

The Subcommittee on Defense Procurement held hearings on March 28, 29, and April 1, 1963, to review progress made in reducing waste in military supply and service activities and in their relation to the activities of the General Services Administration (GSA).

The subcommittee was particularly interested in the newly created Defense Supply Agency (DSA) and other aspects of Secretary McNamara's Cost Reduction Program which were covered in detail by Secretary McNamara and Assistant Secretary Morris in the hearings.²¹

Deputy Director of the Budget Staats and Administrator Boutin (GSA) reviewed the general progress in improved relationships between the DOD and GSA and has subsequently submitted to the subcommittee a memorandum of understanding between DSA and GSA with respect to the management of handtools and paint items (app. 4, p. 47).

Comptroller General of the United States Joseph Campbell reviewed the findings and reports of the General Accounting Office (GAO) since the time of the subcommittee's hearings in 1960. This testimony and the 200 or more reports which the GAO have issued during the past 3 years, attest to the enormity of the military organization, expenditures, and holdings and the need for much more progress despite the impressive strides that have been made since the time of the subcommittee's last general hearings.

Mr. Perry M. Shoemaker, testifying on behalf of the Committee of Hoover Commission Task Force Members, strongly commended Secretary McNamara for the progress made in the military supply and service areas and urged the subcommittee, because of its across-the-board view of the economy, to give continuity to its efforts. In this regard the chairman of the subcommittee has advised the BOB and GSA that a plan for a Federal-wide supply management program is expected as promised by representatives of the BOB, GSA, and DOD (app. 4, p. 49).

It should be borne in mind that the Federal Property and Administrative Services Act of 1949 stated the congressional intent in a declaration of policy:

DECLARATION OF POLICY

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

²¹ *Ibid.*, pp. 1-61.

In theory, the Administrator of GSA has broad authority to accomplish the intent of Congress. However, in practice his powers are often nullified by those who do not wish to lose any functions. Without strong backing by the Bureau of the Budget as the representative of the President, there is, in fact, no power of decision and matters of comparative simplicity are permitted to drift along year after year. This was demonstrated clearly in the case of the management of handtools and paint.

Secretary McNamara also testified in favor of a Government-wide approach for the management of certain items and services:²²

The basic principle that there should be a single agency to procure and manage common items of supply or services for all users is, as this committee has repeatedly pointed out, as valid for the Government as a whole as it is for the Department of Defense. Therefore, in our own efforts to obtain greater efficiency through the consolidation of common logistics support activities, we should not restrict ourselves to defense agencies alone. Whenever we find that it is more economical to use the capabilities or facilities of other Government agencies, with no loss in military effectiveness, and at the same or less cost, we should not and have not hesitated to do so. The General Services Administration annually buys for us about \$770 million of common use items such as office supplies, furniture, and automatic data processing equipment.

This agency also helps us in the screening and disposal of surplus property, in the leasing and maintenance of real property, the storage of records, the purchase of utilities, and so forth.

In general the progress made by the DOD and GSA in supply and service management since 1960 has been very heartening.

COST REDUCTION PROGRAM IN THE DOD

The advent of Secretary McNamara in January 1961 to the DOD complex of overlapping and competing organizations, systems, procedures, methods, and forms has been of great benefit to the Nation's defense and economy which are dependent on each other.

On December 30, 1960, Chairman Douglas of the Defense Procurement Subcommittee wrote to Secretary-designate McNamara drawing his attention to the "appalling" and even "scandalous" waste in the Defense Department's procurement and supply system, enclosed a number of reports and other documents and made these points:

Eighty-six percent of all contracts are negotiated.

GAO had made 50 and more reports on waste in procurement and supply.

There was lack of integration between and among supply systems.

There was lack of policy and waste in use of stock funds.

There was an annual surplus disposal of \$8 to \$10 billion with one agency buying what another was selling.

There was need for a central control agency to match excesses against new requirements, etc.²³

The chairman also stated, "As a minimum, I believe that \$2 to \$3 billion per year could be saved by merely beginning on these reforms." Many others who were familiar with the scope, duplication, and waste in the Defense Department also shared the belief that economies of this magnitude were possible (app. 1, p. 39).

²² *Ibid.*, pp. 20-21.

²³ *Ibid.*, p. 3.

STATEMENT OF SECRETARY McNAMARA

On March 28, 1963, Secretary McNamara gave a full statement of a cost reduction program consistent with the President's mandate "of achieving whatever military force is required at the lowest possible cost."

The Secretary stated in reference to the chairman's letter of December 30, 1960:

That letter served as a platform, if you will, of cost reduction which we have followed since that time. * * * and we fully agree with your two major conclusions that there is a potential saving of at least \$2 to \$3 billion a year in the Defense Department operations and this saving can be achieved without further legislative authority. With the authority I presently have, I am confident we can take the actions necessary to realize that saving.²⁴

COST REDUCTIONS

The Secretary also stated:

* * * in fiscal year 1964 budget we have reduced the budget below what it otherwise would have been by over \$1 billion.

Without further action, that will rise eventually to \$1.9 billion per year every year.

Our goal for end fiscal year 1965 is to initiate actions which will increase the rate of savings to about \$3.5 billion a year. These are higher goals than those reported to the President [on July 5, 1962], but I believe that they can be achieved with a real effort on the part of all concerned.

Further indications of economy are conveyed by this colloquy:²⁵

Secretary McNAMARA. By redefining our logistics objectives to accord with approved Defense Department-wide contingency plans, we were able to reduce our total stated materiel requirements by some \$24 billion. I want to emphasize we didn't save \$24 billion. I am not claiming that. But the requirements were reduced by \$24 billion. They had been so unrealistic that they did not serve as goals or guidelines for efficient procurement.

Chairman DOUGLAS. Mr. Secretary, if you had accepted the programs of the various services you would have been compelled to increase material purchases by \$24 billion?

Secretary McNAMARA. Yes, I think that is a fair statement. I think we should define a requirement as something we need.

Further in the hearings this colloquy occurred:²⁶

Senator PROXMIRE. * * * what was the amount of reduction in requests of the Army, Navy, and Air Force which you made before this budget was recommended to the Congress?

Secretary McNAMARA. Yes.

Senator PROXMIRE. How many billion dollars?

Secretary McNAMARA. The service requests, the requests submitted by the Secretaries and the chiefs of the services, supplemented by the budgets of the independent agencies such as the Defense Supply Agency and the Defense Communications Agency, totaled about \$67 billion.

Senator PROXMIRE. \$67 billion?

Secretary McNAMARA. \$67 billion. The budgets which the President has submitted to Congress total about \$54 billion in terms of new obligational authority. I think the amount is \$53.7 billion.

Senator PROXMIRE. About a \$13 billion reduction.

Secretary McNAMARA. Yes, sir.

Senator PROXMIRE. This is an astonishing achievement.

²⁴ Ibid., pp. 4-5.

²⁵ Ibid., pp. 16-17.

²⁶ Ibid., pp. 37-38.

DETAILS OF DOD PROCUREMENT AND LOGISTICS COST REDUCTION PROGRAM

The cost reduction program as detailed by Secretary McNamara is of three major parts, i.e.:

1. Buying only what is needed by refining requirement calculations for equipment, parts, etc.; increasing use of excess inventories; eliminating "goldplating" (higher specifications than needed); and reducing items in inventory.
2. Buying at the lowest sound price by shifting from non-competitive to competitive procurement and from cost plus fixed fee to fixed or incentive prices.
3. Reducing operating costs by terminating unnecessary operations; standardizing and simplifying procedures; consolidating and increasing efficiency of operations.

In buying only what is really needed, Secretary McNamara stressed that requirements calculations for major combat items be soundly based on unified contingency planning and realistic attainable logistics objectives. Also that specific procurement objectives be established for a large number of important items needed to insure that all forces could engage in sustained operations for a reasonable period of time.

Of great importance also is the fact that the DOD is taking steps to get away from the use of the often arbitrary and wasteful rule-of-thumb measures for determining pipeline requirements which has long been the military practice. So instead of using a standard factor of x days requirements, in the case of high cost, major end items and components, it is now the practice to determine quantitative requirements on an item-by-item basis.

The actions taken reduce both requirements, space, maintenance costs, and also prevent the creation of long supplies. There are now \$12 billion of long supplies in inventory and eventually these lead to surplus sales of billions annually at scrap and salvage prices.

The difficulty of buying only what is needed in the case of the parts and small stores items is far more complicated than is the buying of major items. This is so because there are 4 million such items in inventory with a value of about \$40.6 billion. The management of these items is decentralized, with each echelon adding safety factors of supply and as will be noted hereafter (see p. 30), the difficulty in identifying identical items coming into the supply systems from numerous sources adds greatly to inventory and management costs.

CONSOLIDATION OF MANAGEMENT OF COMMON SUPPLY AND SERVICE ACTIVITIES

Secretary McNamara's analysis of the problem of buying "what we need" and "knowing what we have":²⁷

In order to be sure that we are buying only what we need, we must know exactly what we already have on hand and on order; and this, in an organization as huge, diverse, and far flung as the Defense Department is far from a simple operation. This is particularly true with regard to long supply and excess items, one of the most galling and troublesome areas of logistics management. Instances of one service buying items that are being disposed of by another are, to the taxpayer, the most unexplainable and inexcusable kind of waste.

²⁷ *Ibid.*, pp. 18-19.

This is one of the points you specifically mentioned in your letter, Mr. Chairman. I think we have made much progress since you have brought it to our attention. Yet, this problem can never be entirely avoided as long as you have different parts of the organization buying and managing the same items. One solution, of course, is to have only one element of the organization purchase and manage all commonly used supplies and services, wherever centralized procurement is indicated, and this has been the solution favored by many Members of the Congress.

TREND TOWARD CONSOLIDATION

The trend toward the consolidation of the logistics functions, including the procurement of common items of supply and services, has been underway in the Defense Establishment for a long time. Certainly, since the end of World War II, the sentiment, especially within the Congress for faster progress toward consolidation grew markedly stronger. Following the Unification Act, the problem of overlapping logistics functions in the Defense Department drew the repeated attention and criticism of the Congress. Beginning with the recommendations of the Bonner subcommittee in 1952, the efforts of members of this committee in effecting passage of the O'Mahoney-Douglas amendments to the 1953 defense appropriation bill and later the McCormack-Curtis amendment to the Reorganization Act of 1958, Congress continually prodded the Department in the direction of truly unified logistics management.

IMPROVISATIONS IN LIEU OF CONSOLIDATION

The Defense Establishment, however, moved very cautiously toward that objective with various improvisations such as coordinated procurement, joint procurement agencies, and later the establishment of single managers for common supplies and services and the creation of certain Defense-wide coordinating agencies such as the Armed Forces Supply Support Center. These improvisations, however, did not get to the core of the problem—the need for a single agency charged with the responsibility for procuring and managing all commonly used and centrally procured supplies and services.

I remember a presentation made to me back in 1961 dealing with the lack of standardization in the clothing area. While this may seem to be an absurd example, it is typical of thousands of other more important situations. Each service, for example, was buying a different type of butcher smock, each in several sizes—a total of 18 different inventory items. Today we stock only two types in fewer sizes—a total of seven different inventory items. You all know the story of the belt buckles and the exercise bloomers.

While these are small they are typical of the tens of thousands of standardization actions we have taken which resulted in substantial savings.

ESTABLISHMENT OF THE DEFENSE SUPPLY AGENCY (DSA)

Secretary McNamara moved quickly upon taking office in January 1961 and on April 10, 1961, under project 100 requested the three military Departments for their evaluation of three alternative proposals for the management of common supplies, (1) continue to create more single manager agencies for common commodity classes, (2) consolidate the single manager agencies and operate them under one of the Departments, or, (3) consolidate common supply and service activities for operation in the Office of the Secretary of Defense.

In his testimony before the subcommittee, the Secretary expressed it this way:

Thus, one of the first and most pressing tasks I had to face when I assumed the Office of the Secretary of Defense was the solution of this longstanding problem of the management of common supplies and services. In reviewing the efforts that had been made since World War II, I concluded that this problem must be attacked head on. It seemed clear to me, as it had to this committee for many years, that only through the establishment of a separate, single supply support agency could we ever hope to find a lasting solution. The result was the creation of the Defense Supply Agency, which now does the buying, the stocking, and where necessary, the surplus disposal of a wide range of commonly used supplies and services. Within its area of responsibility, it will greatly help to insure that we "buy only what we need."

Already, the new Agency has made possible a personnel reduction of 3,700 and a savings of \$33 million in the fiscal year 1964 budget.

DSA was established in October 1961 in the Office of the Secretary of Defense (OSD) with Lt. Gen. A. T. McNamara, U.S. Army, its first Director.

DSA became operational on January 1, 1962, and in the short period to date (18 months), General McNamara and his staff have done an exceptional job in consolidating many agencies, services, and functions into an effective organization. By the time of the Cuban crisis in October 1962, DSA rendered effective military support. (See p. 29, chart 3.)

Charts showing summaries of progress through fiscal year 1962 and 1963 respectively are included herewith:

CHART 1

A SUMMARY OF PROGRESS

A Year Ago ... through FY 62

Agency established in October 1961.

Began operations in January 1962 with:

- 6 Single Manager Agencies for supply:
 - subsistence ○ medical
 - petroleum ○ construction supplies
 - clothing ○ general supplies

- 1 Single Manager Agency for services:
 - traffic management

- 34 Military Service-operated surplus sales offices

- Responsibility for DoD-wide administration of Defense programs for:
 - coordinated procurement ○ cataloging
 - standardization ○ materiel utilization
 - surplus and foreign excess disposal

Established Logistics Services Center as DSA's field operator for DoD programs in cataloging, materiel utilization, and property disposal.

Established Headquarters DSA.

Assumed management of DoD-owned stockpile materiel in support of Civil Defense Program and responsibility for provisioning fallout shelters.

Initial savings last half FY 62:
\$39.4 million in inventory drawdown.

A SUMMARY OF PROGRESS

This Year...through FY 63

Extending direction and control to:

- 3 additional Supply Centers for:
 - industrial supplies - 1 April 1962
 - electronic supplies - 1 July 1962
 - automotive supplies - 1 July 1962
- Management of packaged petroleum products
- Management of selected items of chemical materiel
- Newly established Industrial Plant Equipment Center
- A Single Defense Clothing Plant by consolidating old Army and Marine Corps factories

Moved Logistics Services Center
to Battle Creek, Michigan

Consolidated 13 Inspection Offices
and 6 Industrial Mobilization Offices
into 8 Procurement Support Offices

Implementing decisions based on major studies completed in areas of:

- DSA distribution system
- Industrial plant equipment

Initiated full scale study of selected
aeronautical parts

Continuing to give uninterrupted support while
assuming major operating responsibilities ...
example ... Cuban Emergency ...

Making savings in Fiscal Year 1963 such as:

- \$31 million in operating expense savings
- \$233 million in inventory drawdown
- \$900 thousand through clothing factory merger
- \$2.8 million value engineering savings in concert with military services

28 IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES

The full magnitude of the organizational task involving DSA is difficult to appreciate, but is indicated by the following:

TABLE 6
Selected DSA key indicators

	January 1962, actual	January 1963, actual	End fiscal year 1963, projected	End fiscal year 1964, projected ⁴
Items managed..... thousands..	87	1 905	1, 027	1, 311
Inventory..... millions..	1, 588	2, 003	2, 223	2, 149
Procurement..... do.....		2, 824	2, 971	3, 372
Total personnel.....	9, 523	24, 459	28, 482	29, 437
Surplus disposal..... billion dollars..	⁵ 6		7. 7	⁶ 7. 8
Number of DOD items in Federal catalog thousands..	3, 883. 6	3, 957. 5		

- ¹ Includes electronic items managed for Air Force.
- ² Total, January-December 1962.
- ³ Total, fiscal year.
- ⁴ Does not include defense industrial plant equipment center.
- ⁵ Fiscal year 1962.
- ⁶ Tentative.

Simultaneous with the organization of DSA, the establishment of headquarters, the transfer of a major unit, the Defense Logistics Services Center (DLSC) from Washington, D.C., to Battle Creek, Mich., the processing of documents incident to the reduction of force of 3,700 personnel, and bringing aboard and indoctrinating 24,459 employees as of January 1963, the Agency has carried on its portion of Secretary McNamara's overall cost reduction program.

TABLE 7
Cost reduction program—DSA goals

	Recurring annual savings (dollars in millions)		
	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
Operating expense savings.....	\$31	1 \$33	1 \$42
Initial spares provisioning.....	\$4	\$7	\$10
Secondary items.....	\$11	\$20	\$27
Value engineering.....	\$2	\$5	\$10
Item reduction.....	\$1	\$4	\$5
Shift from noncompetitive to competitive procurement:			
Percent competitive.....	93. 8	93. 9	94. 1
Amount of savings.....	\$3	\$4	\$6
Shift from cost plus fixed fee to fixed or incentive price:			
Percent cost plus fixed fee.....	0. 2	0. 1	0. 1
Amount of savings.....	\$1	\$2	\$2
Total.....	\$53	\$75	\$102

¹ Increase due to distribution system savings, 1-time inventory drawdown goals: Fiscal year 1963, \$233,000,000; fiscal year 1964, \$112,000,000.

EFFECTIVENESS OF DSA

Since the purpose or mission of any supply system is to deliver the needed items where and when wanted at minimum cost, it is noteworthy that the newly created agency was very effective during the Cuban emergency of October 1962 though it was less than 1 year old. The effectiveness is reflected in the following chart:

CHART 3

THE CUBAN EMERGENCY—DSA RESPONDS TO A CRISIS

The Alert

- 19 Oct. 62
Army briefs DSA on Cuban contingency plans.
DSA Supply Centers alerted.
- 20 Oct. 62
J-4 of JCS briefs DSA on Cuban contingency plans.

The Response

- 20 Oct. 62
Entire DSA staff alerted.
Emergency Supply Operations Center in DSA HQ activated for round-the-clock operation.
All DSA Supply Centers on round-the-clock basis.
DSA Supply Expeditors sent to Fort Bragg and Fort Campbell (additional Expeditors sent to CINCLANT and Opa Locka, Florida, area on 25 Oct.).

The President's Announcement

- 22 Oct. 62
DSA ready.
Supply Centers briefed.
Liaison established.
Materiel flowing to staging areas.

The Support

- During first 3 weeks, 73,000 high priority requisitions were filled and delivered a ninefold increase in normal volume for these priorities.
- During total 5 week period, an average 40,000 requisitions of all types were processed per day; 24,000 is normal volume.
- DSA maintained average 89 percent on-time fill to customers.
- Defense Traffic Management Service handled 248 troop movements during crisis involving 43,000 personnel with no significant problems.
- JCS Priorities and Allocations Committee was requested for and gave a decision on allocation of critical items within hours.

For Example

- On Saturday, 20 Oct., DSA was requested to provide 35,600 cots and large number of tents to Florida. Delivery Monday was so prompt troops were not prepared to unload.
- 300,000 combat rations were supplied to other Government agencies for possible use in emergency relocation sites.
- Hundreds of tons of materiel were picked, packed, marked, and held for possible call forward to embarkation points in event certain emergency plans placed in operation.
- A simplified rate negotiated with railroads on military impedimenta proved during Cuban Crisis to reduce rail car requirements by 10 percent, cut loading time by 20 percent, and reduce administrative workload by 40 percent.

MORALE IN DSA

Subcommittee staff visited six of the major DSA agencies and centers and the headquarters during May-June 1963 and found the morale high and the employees recruited from all the services imbued with a sense of mission and dedicated to the idea that they are engaged in a worthwhile undertaking as indeed they are. In this regard, General McNamara and his staff who have literally worked "around the clock" are to be highly commended.

FUTURE ROLE OF DSA

While DSA has made a remarkable showing in 18 months, since it became operational, there are a number of additional steps which deserve careful consideration if the Agency is to fulfill its potential in effectiveness and in its contribution to the overall cost reduction program instituted by Secretary McNamara and endorsed by the President.

1. Control of items entering military supply systems

The stores inventories of the military supply systems cost about \$40.6 billion. There are almost 4 million items identified as being individually different in the military catalog system. There are \$12 billion in long supplies. There are more than \$15 billion in parts inventories. There are \$4.5 billion in aircraft spare parts. Surplus disposals at end fiscal 1963 are projected at \$7.7 billion (p. 28). The net return from surplus sales for fiscal 1962 was 3.87 percent.

It must be evident that surplus property brings small returns to the taxpayer and that whatever practical steps are necessary should be taken through organization, cataloging, standardization procurement, and otherwise to prevent the creation of long supplies which eventually may become surplus.

The Comptroller General of the United States has recently reported to the Congress²⁸ that there are duplications in items stocked in military supply systems caused by the assignment of two or more stock numbers to identical items which have come into the systems through the individual services. For example:

1. The Navy had 192 mooring kits, valued at \$11,520, in excess of its requirements. The Army's Transportation Materiel Command needed these mooring kits but failed to acquire them from the Navy because the Navy had them cataloged under one FSN, while the Army used another FSN. Therefore, the Army did not recognize that the kits were identical. The Navy's items were eventually sold as surplus material for \$1,394. The Army kit (FSN 1730-491-0330) was cataloged under a method describing its essential characteristics while the Navy kit (FSN 1730-338-6374) was cataloged under a different method, citing only a Government specification number in support of the FSN.

2. The Air Force offered the Navy 36,441 units of preformed packing valued at \$10,932 which the Air Force did not need. This material had been assigned FSN 5330-038-2186, based upon the Air Force's description of the item and the identification of one particular manufacturer. The identical packing had been assigned another FSN, 5330-599-3088, based on the Navy's description which did not refer to a particular manufacturer and indicated a less specific use or application of the material. The Navy had a requirement for the item but was unable to recognize that the material was identical to that needed by it because different FSN's were used. Consequently, the Navy did not request the Air Force to transfer available stock to fill existing requirements.

3. The Army Signal Supply Agency cited a manufacturer's part number, PL 7301362G1, as support for the assignment of FSN 5840-561-9162 for a voltage regulator. The Air Force's Rome Air Materiel Area in requesting the assignment of an FSN for the same item, made by the same firm, referred to another item-identifying number (ML 7301362) and the voltage regulator was assigned a second FSN (6610-327-5834). During our review we noted that the Air Force had 8 of these units (total value of \$8,160) excess to its requirements, while at the same time the Army needed 30 such units. Because of the use of different stock numbers for identical voltage regulators, these common-use items were not recognized by either service. However, when we brought this matter to the attention of the Air Force, the eight excess units were transferred to the Army in partial fulfillment of existing requirements, thus eliminating the need for procuring these items.

²⁸ Report to the Congress of the United States, "Ineffective Utilization of Supply Items Resulting From Deficiencies in the Federal Catalog System Within the DOD," May 1963.

4. The Army and Navy each requested the assignment of a stock number of an identical edge assembly by referring to different item-identifying data. As a result, two different FSN's were assigned to this item. The Army Transportation Materiel Command asked the Navy Aviation Supply Office for 533 of these edge assemblies, identified by FSN 1560-244-6340, and were informed by the Navy that none were available for transfer. However, later in the same month the Aviation Supply Office offered to transfer 15 of these items to the Transportation Materiel Command under a different FSN (1560-610-1984), not realizing that these were the same items previously requested by the Army. The Army, in turn, failed to recognize that the edge assemblies were the same. In the following month the Army again asked the Navy if it could supply the edge assemblies, and the Navy advised that it had no record of the FSN used by the Army (1560-244-6340). Again the transfer was not accomplished. We noted that the Navy actually had 36 of these particular edge assemblies, valued at \$2,484, which it could have furnished to the Army in partial fulfillment of existing requirements. We further noted the Navy had previously recognized that its item was a duplicate of the Army's, but the error was not corrected.

5. The Dayton Air Force Depot was managing the same supply item, a fixed dielectric capacitor, under three different FSN's with three slightly differing descriptions. The item description for FSN 5910-648-8471 showed that the capacitor was made of mica. However, the item descriptions for FSN's 5910-668-425 and 5910-264-8353 indicated that the capacitor was made of plastic. In addition, the description of the latter FSN showed that the capacitor was hermetically sealed, whereas this characteristic was not mentioned in connection with the assignment of FSN 5910-668-4625. DOD records showed that all three items had been obtained from the same manufacturer and had the same manufacturer's part number. The Air Force computed supply requirements separately for each of these FSN's, and, as a result, we found that the Air Force unnecessarily procured 2,160 capacitors at a cost of \$4,065 even though at the time of the procurement a 7-year consolidated supply of the capacitors was on hand. The Air Force subsequently recognized that the same item had been cataloged under three different FSN's and has consolidated them under one stock number.

6. The U.S. Army Signal Supply Agency (USASSA) failed to recognize that the same capacitor was assigned two FSN's. Agency records at USASSA showed a need for 1,190 capacitors cataloged as FSN 5910-195-5157 at the time that 849 units of the same capacitor cataloged as FSN 5910-556-9422 were available in long supply from its own stock. The latter FSN was assigned on the basis of reference to an active military specification, while FSN 5910-195-5157 was identified by reference to a superseded specification. When we brought this to the attention of technical personnel at USASSA, they confirmed that the items were identical. Through our efforts USASSA consolidated this item under one FSN and used the 849 capacitors, valued at \$1,231, to satisfy current requirements, thus eliminating the need for procuring these items.

The cataloging system was intended to permit only one identifying number for each item in the Federal supply system. The DOD has now spent \$375 million²⁹ on its share of the catalog but according to the GAO report there is considerable loss in utilization of stocks among the services due in part at least to the fact that the services supply the item descriptions, and apply for the assignment of stock numbers. Sometimes the identifying number is provided through reference to the manufacturer's number rather than through a word description of the essential characteristics of the item. The continuation of this practice will eventually corrupt the catalog system, load the supply systems with duplicate items and recreate the situation which the catalog was devised to correct.

Control of item identification is therefore essential to control of stock entries into the military systems. Adequate authority and means must be given DSA to carry out the full intent of Congress in this regard.³⁰

²⁹ *Ibid.*, p. 154.

³⁰ Public Law 436, 82d Cong., Defense Cataloging Standardization Act.

2. Utilization of stocks—Project plus

The problem of matching the requirements for millions of items for many using agencies at many places against decentralized inventories in the control of many custodians at various points has been most perplexing over the years as Secretary McNamara stated (pp. 23, 24).

The DOD witnesses produced statistics showing that the use of excess property had increased in the DOD from \$213 million in fiscal 1958 to \$1,080 million in fiscal 1962. And in other Government agencies from \$168 to \$271 million during the same period.³⁰

Despite this showing of improvement, the problem persists as evidenced by numerous GAO reports and the volume of surplus property donations and sales.

The Defense Logistics Services Center at Battle Creek, Mich., has recently undertaken what is known as Project Plus which offers additional improvement in the matching of stocks against needs. Essentially this project is a mechanical system for matching deficiencies in DOD inventory manager's stock levels against overstocks or excess of items in other inventory manager's stocks (long supply) through the use of computers.

Since Plus began on November 1, 1962, using 400,000 items and 24 inventory managers and only began expanding to its goal of 2.5 million items on April 1, 1963, results have been excellent. For the first 150 days of the test, about \$20 million worth of material has been exchanged by inventory managers.

It is estimated that by October 1963, Plus will need 16 people full time at a cost of \$120,000 annually. It is also anticipated that Plus can save by the end of October 1964 as much as \$400 million.

If a saving of \$400 million, repeat, \$400 million, seems large to those unfamiliar with DOD supply statistics, it should be recalled that this is not 1 percent of the DOD stores inventories of \$40.6 billion to which Secretary McNamara referred in his testimony.³¹ It should be added that \$400 million is about one-third of 1 percent of the \$129,457 million in personal property holdings of the DOD.

The subcommittee does not ridicule a saving of \$400 million since every little counts in these times of \$100 billion budgets and a national debt of \$305.7 billion as of July 7, 1963.

The point is made, however, that Project Plus is a partial measure by DSA to balance stocks of the custodial managers by using each other's declared excesses. The real problem is to match requirements against all inventories whether or not they have been declared excess by the custodians.

The only way to get full utilization of inventories at minimum cost is to consolidate or integrate management. The DOD annually spends hundreds of millions of dollars for automatic data processing equipment. With this equipment, it is now possible to maintain up-to-date inventory data on all items cataloged in the military systems. Against these inventories can be matched the approved requirements for assigned missions.

³⁰ Public Law 436, 82d Cong., Defense Cataloging and Standardization Act.

³¹ "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963, p. 18.

In unified operations some power above those who compete for the resources must make the allocations. No service or activity "owns" property, it is "owned" by the people of the United States and agencies, civilian and military, Government corporations, stock funds, and so forth, and so forth, are merely custodians. This fact is often overlooked in bureaucracies with result that inventories are not pooled for general use but hoarded by the custodial agencies under various reserves to insure their self-sufficiency.

In matching requirements against existing inventories, top management should establish the levels of operating stocks, mobilization reserves, economic retention reserves, contingency retention reserves, and so forth,³² and exercise overall judgment in deciding what are really long stocks and stocks that should be used in filling legitimate existing requirements versus potential or possible future needs by the custodial agency.

3. *Assignment of supply items to DSA for management*

As of December 31, 1962, there had been assigned (coded) to DSA for management, 1.3 million of the 3.9 million items in the military catalog. This assignment of items to DSA was in conformity with procedures established when the several single manager systems were in operation before the creation of DSA.

The assignment (coding) procedures first permitted the services themselves to decide which items they would keep for management. The balance was then given to the single manager agencies for selections and the residue from the second selection was offered to GSA.

Under the coding system, the military services (Army, Navy, Air Force, and Marine Corps) retained three general categories of items:

- A-1. Those subject to constant modification and research and development.
- A-2. Stable design, stocked items directly related to support of weapons (planes, ships, missiles).
- A-3. Major end items.

A sampling of the 646,000 A-2 items, i.e., those of stable design and stocked for support of weapons systems shows that in many cases two or three services continue to manage identical items (app. 8, p. 64). This means duplication in management, a fault DSA is intended to correct.

It is also found that the services retained items so similar to those transferred to DSA as to make the process appear ridiculous, i.e.:

TABLE 8
Services versus DSA managed items

Item name	Identification No.	Manager
Fender, right.....	2510-741-0511	Service retained.
Fender, left.....	2510-741-0512	To DSA.
Headlamp guard, right.....	2510-737-6638	Do.
Headlamp guard, left.....	2510-737-6637	Service retained.
Fender, right.....	2510-740-9558	Do.
Fender, left.....	2510-740-9557	To DSA.

³² "Background Material on Economic Aspects of Military Procurement and Supply," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, March 1963, p. 6.

This problem is not confined to one group of commodities but is a general condition at all inventory control points.

The duplication perpetuated by the coding performed before DSA became operational and demonstrated its ability to support military operations during the Cuban crisis in October 1962 is temporarily excusable. However, DSA was established to eliminate unnecessary duplication and hence waste in the common supply support area. If identical, similar, closely related (right versus left), substitutable, interchangeable items are procured, stocked, and issued in various places subject to individual service determinations, the faulty management of the past will be perpetuated.

It is understood that the GAO is planning additional investigations on this and related subjects and is urged to do so by the subcommittee.

ITEM MANAGEMENT

This table indicates the proportion of items coded to DSA, decentralized, or retained for military service management as weapons related under the approved DOD criteria.

Of the 2,144,000 items in the 241 Federal supply classes assigned for integrated management, the military services retained approximately 31 percent. About 60 percent have been coded to DSA and approximately 9 percent have been coded for decentralized management, i.e., local purchase or procurement from GSA.

TABLE 9

Status of item coding and classification—DSA assigned classes—As of Dec. 31, 1962

DOD items:

In FSC classes assigned DSA.....	2, 144
Central management.....	1, 311
Decentralized management.....	187
Service retained.....	646
In FSC classes service managed.....	1, 814
Grand total.....	3, 958

[In thousands]

	Total items in assigned classes	Coded for integrated management by DSA	Coded for military service retention	Procurement from GSA or local purchase ¹
Defense Automotive Supply Center (DASC)...	244	152	35	57
Defense Clothing and Textile Supply Center (DCTSC).....	27	23	1	3
Defense Construction Supply Center (DCSC).....	257	119	97	41
Defense Electronics Supply Center (DESC).....	725	521	199	5
Defense General Supply Center (DGSC).....	204	129	54	21
Defense Industrial Supply Center (DISC).....	668	353	258	57
Defense Medical Supply Center (DMSC).....	13	11	1	1
Defense Petroleum Supply Center (DPSC).....	5	2	2	1
Defense Subsistence Supply Center (DSSC).....	1	1
Total.....	2, 144	1, 311	646	187

¹ Adjustments in this area are continuing. As of 31 Dec. 1962, 160,500 items had been offered GSA and GSA had accepted 15,000. 73,100 had been recommended by GSA for local purchase and the rest were still under consideration.

² 60 percent.

³ Total may not match because of rounding to nearest thousand.

⁴ 31 percent.

⁵ 9 percent.

4. *Competitive procurement*

As mentioned previously (pp. 2-4), the advantages of competitive procurement are so obvious and universally recognized that every reasonable effort must be made to increase its use.

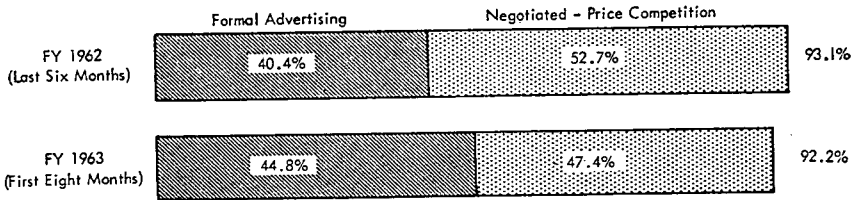
While the use of formal advertised procurement for the DOD as a whole is 13.1 percent of the total, DSA reports 40.4 percent. And while price competition other than formally advertised for the DOD as a whole is 23 percent, that for DSA is 52.7 percent.

It is fully recognized by the subcommittee that the items procured by DSA are generally of a standard, common nature. However, it is also true that much greater standardization is possible of items under duplicate service management. Such items can be placed under common management where the manifold benefits of formally advertised competition will accrue to the Government.

COMPETITIVE PROCUREMENT—DSA

DSA procurements are made on a competitive basis to the maximum practicable extent. This is accomplished by formal advertising or by negotiation. During the last half of Fiscal Year 1962, the first-measurable period of DSA procurement, 40.4% of the program was awarded by formal advertising, and 52.7% by competitive negotiation for a total competitive rate of 93.1% DSA plans for Fiscal Year 1963 through 1965 provide for meeting goals of:

FY	% Competitive
1963	93.8%
1964	93.9%
1965	94.1%



Source: Defense Supply AGENCY

5. Research and development and engineering capability for DSA

Inasmuch as DSA has the responsibility for the management of common-type items for the DOD including the program for cataloging and standardization and since there are many common-type items that are not under DSA management, it is apparent that DSA needs adequate research and development, and engineering support in order that it may identify and analyze items of common management potential. It therefore needs the capacity to develop standards, also lists of substitutable and interchangeable items.

At the present time the preponderance of research and engineering support for DSA comes from the Quartermaster Research and Engineering Command at Natick, Mass., which was established in 1954 to support the Quartermaster Corps and which remains under Army direction since DSA was established.

As the Natick facility expends almost two-thirds of its man-years on DOD-wide projects involving subsistence, clothing, and general supplies, consideration should be given to the desirability of making the facility directly responsive to DSA. It is now several steps removed in one of the three departments served by DSA. (See table 10.)

TABLE 10
Proposed fiscal year 1964 program (indirect included)

[Man-years and millions of dollars]

	Research, develop- ment, test and eval- uation						Minor program		Total (excluding research, develop- ment, test and eval- uation)		Grand total	
	Man- years	Amount	Man- years	Amount	Man- years	Amount	Man- years	Amount	Man- years	Amount	Man- years	Amount
Subsistence.....	179	3.5	64	0.6	31	0.2	-----	-----	95	0.8	274	4.3
Clothing.....	187	4.4	162	1.1	62	.7	-----	-----	224	1.8	411	6.2
General supplies.....	24	.3	272	2.1	48	.4	-----	-----	320	2.5	344	2.8
Petroleum, oils and lubricants equipment.....	27	.6	-----	.1	-----	-----	-----	-----	-----	.1	27	.7
Air delivery and other equipment.....	178	5.3	12	.3	12	.3	-----	-----	24	.6	202	5.9
Research ¹	238	3.7	-----	-----	-----	-----	-----	-----	-----	-----	238	3.7
Minor programs.....	-----	-----	-----	-----	-----	-----	40	0.6	40	.6	40	.6
Total.....	833	17.8	510	4.2	153	1.6	40	.6	703	6.4	1,536	24.2

¹ Basic and applied research in physical, biological, environmental, and psychological sciences which directly or indirectly support the commodity areas.

APPENDIXES

APPENDIX 1

The letter from Senator Douglas to Secretary McNamara, dated December 30, 1960, follows:

DEAR MR. MCNAMARA: May I first congratulate you on your appointment as Secretary of Defense. I want to wish you well in this post which is of the highest responsibility and where the opportunity to serve the country is unsurpassed.

I am writing to draw your attention to my concern, and I think that of almost every Member of Congress, and of private persons who have gone into it, over what is "appalling" and even "scandalous" waste in the Defense Department's procurement and supply system. I am enclosing a number of reports and other documents concerning this. May I mention only a few points.

(1) Some 86 percent of all contracts—both in dollar and number—are now "negotiated" rather than let by competitive bidding. This is inexcusable and results in millions of dollars in excess prices (maybe billions). In fact, in the reports on the latest Defense Department appropriation bill, both the House and Senate urged radical reform in this area. We have been met, however, by little more than a series of justifications of the existing system, instead of action to carry out the congressional mandate.

(2) In the last 2 years alone, the General Accounting Office has submitted over 50 reports going into detail concerning waste in procurement and supply. The testimony of the Comptroller General before my committee indicates that these are representative samples of a much larger universe. Almost every time they go into this question, malpractices and bad practices are found.

(3) There is almost a complete lack of integration between and among the supply systems of the individual services and, equally important, within the services. There is vast duplication of personnel, inventories, warehousing, etc., which can only be solved by centralizing the supply systems. This should be done immediately, at least with respect to those items which are common to all of the services.

(4) The stock fund system has resulted in the accumulation of excess stocks and cash. Each service seems to operate them in a different way. There is no common practice concerning them. They often involve a double appropriation. In addition, the reimbursable requirements have had the effect of preventing other services and agencies from using stock fund materials which have subsequently been disposed of as surplus.

(5) The amount and disposal of surplus property is also of scandalous proportions. We are now selling off some \$8 to \$10 billion of surplus supplies. The question arises, "What kind of a supply system do we have which could conceivably generate such amounts?" In addition, we are receiving only 2 to 3 cents on the dollar when they are disposed of.

Furthermore, there are literally hundreds of examples of concurrent buying and selling—where one agency of the Government buys new supplies which another agency is at the same time disposing of as surplus. A recent Budget Bureau study showed that this was true in two-thirds of the examples, and in their study the equipment was new, available in the same geographic area, etc.

(6) The Defense Department has at hand one agency which would radically help in solving some of these problems. That is the Armed Forces Supply Support Center. But it is not being properly used. Services have, in effect, a veto over its activities and its hands have been tied.

At the moment the Armed Forces Supply Support Center is attempting, under great difficulties, to match the excess or surplus supply inventory with requirements of the services. But much more is needed. There should be a complete inventory of all supplies so that new procurement or requirement can be matched against existing stocks. This is not now true and calls for a central agency where all procurement requests can go and be matched against existing supplies before new purchases are made.

In this connection also, many of us believe that the services have excessive quantities in their various inventory categories, i.e., mobilization reserve, etc.

I believe that great savings can be made in procurement and supply in the Defense Department. To summarize—there must be more competitive bidding, greater centralization of purchase and supply, much more efficient handling of the surplus supply and disposal system, and the reform of the stock fund and reimbursable requirements.

Fortunately, these reforms can take place under existing law. The Defense Department does not need legislation to effect these reforms.

I think the motto of the Department should be to "use it up, wear it out, make it do," wherever possible. As a minimum, I believe that \$2 to \$3 billion per year could be saved by merely beginning on these reforms. These savings should then be translated into more missiles, tanks, and combat troops so that our country can be more adequately defended and our people protected.

With best wishes.

Faithfully,

PAUL H. DOUGLAS.

APPENDIX 2

THE SECRETARY OF DEFENSE,
Washington, July 8, 1963.

Memorandum for the President.

Subject: Department of Defense cost reduction program—First annual progress report.

A year ago, in a memorandum dated July 5, 1962, I reported to you that, through improvements in operating efficiency, we could cut the Department's logistics costs by at least \$3 billion per year within 5 years, and that we would realize about 25 percent of this goal in fiscal year 1963. I have now completed a review of the results to date and the opportunities that lie ahead, and I find that they are greater than estimated last year:

(1) Savings in excess of \$1 billion were actually realized during fiscal year 1963, compared with our estimate of \$750 million last July.

(2) The actions now planned for fiscal year 1964 and 1965 will bring the estimated annual savings, to be realized by fiscal year 1967, to almost \$4 billion, compared with the \$3 billion estimated last July.

I should like to review the highlights of our progress to date and some of the ways in which we hope to achieve the ultimate goal of \$4 billion in savings per year.

Let me note that these savings have not in any way been achieved at a sacrifice of national security. Indeed during the past 24 months we have achieved—

- a 100-percent increase in the number of nuclear warheads in the strategic alert forces;
- a 60-percent increase in the tactical nuclear forces deployed in Western Europe;
- a 45-percent increase in the number of combat-ready Army divisions;
- a 30-percent increase in the number of tactical air squadrons;
- a 60-percent increase in airlift capability;
- a 100-percent increase in ship construction and conversion to modernize the fleet;
- a 200-percent increase in the Special Forces, trained to deal with counter-insurgency threats.

The cost of these advances in our national security will begin to be balanced in future years by the very substantial savings we are assuring through this cost reduction program.

As you know, the savings are being achieved in three ways:

- (1) Buying only what we need to achieve balanced readiness.
- (2) Buying at the lowest sound price.
- (3) Reducing operating costs through integration and standardization.

I. BUYING ONLY WHAT WE NEED

a. Refining requirements calculations

The best way to insure that we buy only what we need is to start at the very beginning of the procurement process—the setting of requirements. Through a systematic and intensive review of requirements calculations, we have been able to cancel \$700 million of purchases which otherwise would have been made had our procurement programs still been based on planning factors and inventory levels considered necessary in past years. The largest part of this reduction occurred in spare parts for aircraft and missiles. We expect to increase these savings in fiscal years 1964 and 1965.

Here are some of the ways in which these savings were achieved in fiscal year 1963:

- (1) The Army has introduced the new uniform issue priority system permitting reduction in order and shipping time by an average of 15 percent, thereby reducing on-hand inventory requirements. Fiscal year 1963 annual savings are estimated at \$36.2 million.
- (2) By closer management control, the Navy has been able to reduce stocks of high demand spare parts on aircraft carriers by 50 percent.
- (3) By a detailed analysis of repair operations time, the Air Force has been able to reduce repair cycle time on high-cost items from 90 to 45 days and on low-cost items from 120 to 60 days. In total, the Air Force has reduced requirements on some 400,000 items with annual savings of \$469 million.

b. Increased use of excess inventories

During fiscal year 1963 almost \$1.2 billion in excess inventories held by the Department and its contractors has been redistributed to other military users for current consumption or mobilization reserves. This is an increase of better than \$200 million in the rate of reutilization, compared with fiscal year 1961. Our goal for the next 2 years is to increase this rate to more than \$400 million over the 1961 level.

Here are some examples of reutilization of excess inventories in fiscal year 1963:

- (1) More than 1 million 2.75-inch rockets excess to the Air Force were transferred to the Army for use on helicopters. By spending \$10 million to restore them to operational condition, the Army is saving \$41 million over the cost of new procurement.
- (2) Twenty J-79 jet engines excess to the Air Force were transferred to the Navy for use in KD-20-1 flying targets, thereby saving \$4.4 million.
- (3) Five M-33 fire control systems excess to the Army were transferred to the Navy to be used as Government-furnished equipment on a Navy contract, thereby saving \$2.3 million.
- (4) Thirty-one unserviceable aircraft engines excess to the Air Force were transferred to the Army for use on Army aircraft. By spending \$372,000 to put them in good condition, the Army was able to save \$806,000 over the cost of new procurement.
- (5) \$67.3 million worth of parts was reclaimed from excess Air Force aircraft engines during the first 11 months of fiscal year 1963.

With excess stocks now representing a \$12 billion investment, one of our most important logistic management problems is to insure that we use every item having a further useful life. A central clearinghouse has recently been established at the Logistics Services Center in Battle Creek, Mich., where by the end of this calendar year a complete inventory of such items will be available. Requirements of the military departments are already being screened against this central inventory and available stocks transferred from one military department to another to meet valid needs.

c. Eliminating "goldplating" in specifications

Last year I reported to you that we were undertaking a major effort to eliminate from our procurement specifications costly materials and fabrication processes not essential to the proper functioning of the item being bought. As a result, we are now averaging savings well over \$1 million per week in reduced costs, and we expect these savings to triple during the next 2 years.

42 IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES

The following are some recent examples which illustrate the wide range of opportunities for such "value engineering" savings:

	Unit cost		Savings on current procurement
	Before redesign	After redesign	
1. "Mule" for opening and closing Minuteman silo. Substituted a commercial hydraulic for a specially designed electronic mule.....	\$555,000.00	\$80,800.00	\$1,200,000
2. Air vane for Poling missile. Substituted an aluminum casting with simplified fittings for a foam-filled plastic skin with special fittings.....			
3. Lift truck for Asroc missile. Substituted mechanical lifting device with disk-type brakes for hydraulic device with precision machined brakes.....			
4. Brake fluid reservoir for T-38 aircraft. Reduced capacity from 17 ounces to 4 ounces to eliminate unnecessary capacity.....			
5. Radiation hazard filter for airborne rocket launcher. Redesigned filter using available standard parts.....			
	2,480.00	385.00	245,000
	178.00	52.00	50,400
	13.02	4.70	83,000

II. BUYING AT THE LOWEST SOUND PRICE

It is not enough to buy only what we need, we must also buy at the lowest sound price.

a. Shifting from noncompetitive to competitive procurement

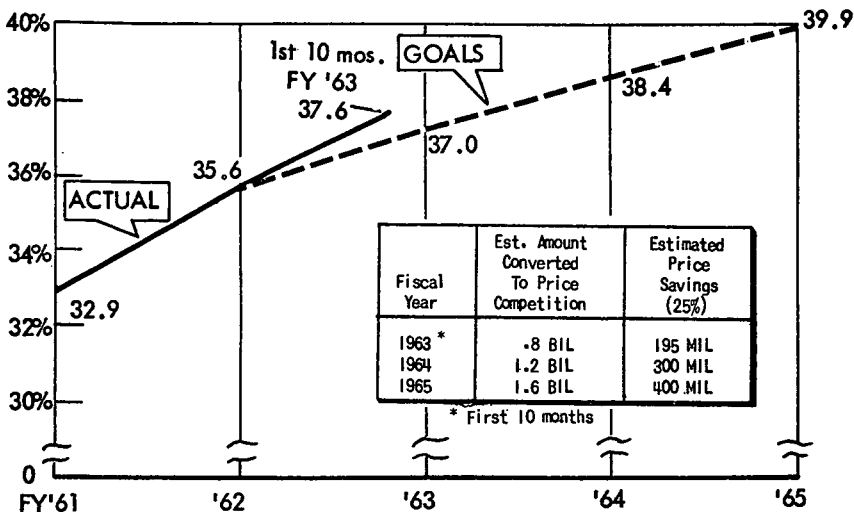
Maximizing competition in Defense procurement is sound public policy. It is one of the most effective means of broadening the industrial base and insuring that we obtain the lowest sound price on what we buy. The purchase of specialized military items, however, involves unique problems which tend to limit our opportunities to buy competitively. We are attempting, nevertheless, to expand continually the opportunities for competitive bidding even on these specialized items, and in the process of doing so we have achieved savings in the first 10 months of fiscal year 1963 of \$195 million. We have found that when we are able to shift from a single source to a competitive procurement, we normally achieve a reduction in price of at least 25 percent. On 58 major procurements made competitively during the third quarter of fiscal year 1963, the average reduction was 30 percent of the price formerly paid to the sole source producer.

Here are some examples of shifts to competitive procurements in fiscal year 1963, including both end items and components:

Item	Previous non-competitive price	1st competitive price	Gross savings on fiscal year 1963 procurement
1. M-110, 8-inch Howitzer.....	\$38,044	\$41,415	\$7,855,555
2. M-107, 175-millimeter gun.....	68,036	41,376	3,625,760
3. R-442, radio receiver.....	1,519	1,034	908,890
4. RT-246, receiver/transmitter.....	3,976	2,692	927,048
5. RT-524, receiver/transmitter.....	3,074	2,036	7,338,660
6. AN/PRC-25, man pack radio.....	2,278	843	10,494,312
7. GRC-50, radio sets.....	34,478	17,411	4,300,940

To insure a concerted effort toward competitive buying whenever possible, we established specific goals to be achieved by each of the military departments and the Defense Supply Agency in terms of the percentage of awards to be made by price competition in each of the fiscal years 1963, 1964, 1965. As the following chart reveals, the Department of Defense as a whole in the first 10 months of this fiscal year has exceeded the full year 1963 goal; 37.6 percent of all awards were made to the lowest responsible bidder, compared with 32.9 percent in fiscal year 1961.

CONTRACTS AWARDED ON BASIS OF COMPETITION
AS A PERCENT OF TOTAL CONTRACT AWARDS



The estimated \$195 million saved during the first 10 months of fiscal year 1963 breaks down as follows:

Estimated price savings from competition

	<i>Millions</i>
Aircraft components and parts.....	\$40
Missile components and parts.....	24
Electronic and communications equipment.....	40
Vehicles (combat and noncombat).....	27
Ships and components.....	58
Weapons and ammunition.....	4
Supplies and services.....	2
Total.....	195

The full year savings may be somewhat greater when final results for May and June are known. Our goal in this area is to increase total price reductions through competition by an additional \$100 million each year for the next 3 years, thereby reaching an annual rate of savings by fiscal year 1966 of \$500 million over the fiscal year 1961 level.

b. Shifting from cost-plus to fixed-price and incentive contracts

The increasingly complex weapon systems resulting from the technological revolution of the 1950's led to a great expansion in the use of the cost-plus-fixed-fee (CPFF) contract. However, both Department and industry officials agree that CPFF contracts not only fail to provide incentives for economy, but actually deaden management efficiency by removing the need for either the Department or the contractor to estimate costs accurately, and to plan and control programs tightly.

Accordingly, last year we established specific goals for a reduction in the use of CPFF contracts by each military department in each of the 3 fiscal years 1963-65. The goal for fiscal year 1963 was to reduce such contracts to 25.8 percent of total contract awards (compared with 38 percent in the first 9 months of fiscal year 1961) with an ultimate goal of not more than 12.3 percent by fiscal year 1965. This is a very ambitious goal but we are exerting every effort to meet it.

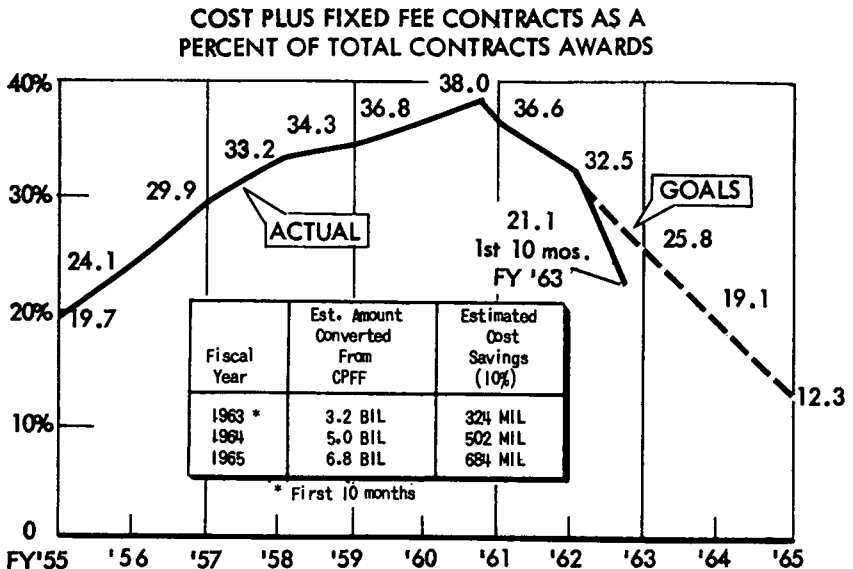
44 IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES

Improvements actually achieved by each of the military departments during fiscal year 1963 are:

[In percent]

	9 months of fiscal year 1961	10 months of fiscal year 1963	Change
Army.....	32.8	16.0	-16.8
Navy.....	24.3	18.0	-6.3
Air Force.....	50.6	30.2	-20.4
All Department of Defense.....	38.0	21.1	-16.9

As shown on the following chart, CPFF contracts during the first 10 months of fiscal year 1963 dropped to 21.1 percent of the total—the lowest level since fiscal year 1955.



As a result of these efforts, the value of annual awards under CPFF contracts has declined by \$3.2 billion on a basis comparable to fiscal year 1961. Our best estimate is that for each dollar shifted to firm fixed-price and incentive contracts, we should be able to reduce final costs by at least 10 percent—a total saving of \$320 million.

III. REDUCING OPERATING COSTS

The third broad area for improving logistics management is the reduction of operating costs by—

- (1) Terminating unnecessary operations;
- (2) Standardizing and simplifying procedures; and
- (3) Consolidating and increasing the efficiency of major operating services: supply, communications, transportation, and maintenance.

a. Terminating unnecessary operations

Retention of unneeded real estate and facilities constitutes one of the largest hidden costs in Defense operations. In 1961 you instructed me to review thoroughly our utilization of real properties, and, wherever possible, to consolidate activities in order to eliminate unnecessary overhead costs, free personnel for higher priority duties, and release property which could be put to more productive use by the civilian economy. Accordingly, we have instituted a permanent program of inspection and review to achieve these objectives. During the past 2 years,

actions have been initiated at over 400 locations in the United States and overseas which, when completed, will produce the following results:

Real estate return to civilian use.....	acres.....	265,905
Industrial plants with commercial potential made available for sale.....	plants.....	54
Personnel being released or reassigned.....	men.....	53,310
Annual operating savings.....	dollars.....	316,000,000

During the next 2 years we expect to take additional actions which will increase the annual savings to almost \$450 million, with further savings anticipated in later fiscal years.

The adverse impact of these actions on the local economies is being completely or substantially offset in many cases. The Administrator of GSA recently advised me that in calendar year 1962, 26 industrial plants release by Defense were sold at fair market value of \$49 million, and that these plants are now employing 27,000 workers. In addition, we have an active program to assist employees and communities adversely affected by reduction or termination of Defense activities. This program has been successful in minimizing loss of employment as well as in turning the excess properties to productive non-Defense uses.

b. Standardizing and simplifying procedures.

During fiscal year 1963, 16 different requisitioning systems were successfully consolidated into 1 standard system, eliminating extensive rewriting of information and wasted clerical effort. As a result, manpower reductions are beginning to occur, and over the next 2 years the value of clerical time saved should reach \$20 million per year.

On October 1, we plan to introduce a new single multipurpose shipping document which is designed to replace the 81 different bills of lading and shipping forms now in use. The value of the man-hours which the new improved system is expected to save when fully operational is estimated at more than \$30 million per year.

c. Consolidating and increasing efficiency of operations

Actions taken during the first 9 months of fiscal year 1963 to consolidate and increase the efficiency of other logistical operations of the Department of Defense should produce savings of almost \$220 million per year, somewhat more than our full year goal.

1. *The Defense Supply Agency*, in its first 18 months of operation, has produced results well beyond our estimates prior to its creation. DSA is now managing 1 million items of common supplies, and has proved its ability to provide effective support to military users at substantially less cost than they previously incurred. Overhead savings of \$31 million in fiscal year 1963 and \$35 million in fiscal year 1964 are already assured. Inventories in fiscal year 1963 were reduced by 10 percent or \$240 million, and a program was initiated to consolidate DSA stocks at 11 instead of 77 primary locations. Further improvements in DSA's operating efficiency are expected in future years.

2. *Communications systems savings*.—During the past year the responsibilities of the Defense Communications Agency have been expanded and its effectiveness improved. Consolidated procurement of leased line services and more effective utilization of existing Defense and commercial services have produced savings of \$82 million.

3. *Transportation and traffic management*.—Savings of \$13 million reported during the first 9 months of fiscal year 1963 resulted from the increased use of economy class air travel, decreased cost of household goods shipments, and more economical use of airlift for cargo movements. Our goal for fiscal year 1963 was a saving of \$17 million. These economies are expected to increase during the next 2 fiscal years, reaching an annual rate of \$41 million by fiscal year 1965.

4. *Maintenance management*.—Among other steps, we are installing detailed cost accounting and information systems to provide a basis for measuring and evaluating the performance of maintenance activities employing more than 1 million military and civilian personnel at some 2,000 locations. Savings from these and other reforms designed to provide more economical maintenance of equipment, family housing, and other property exceeded \$60 million in the first 9 months of fiscal year 1963—approximately double those in all of 1962. Our fiscal year 1965 goal for savings in these areas is over \$400 million per year.

IV. SUMMARY

Last year, I submitted a memorandum on the cost reduction program reporting reforms which I estimated would produce annual savings of over \$750 million in fiscal year 1963—toward a fiscal year 1967 goal of \$3 billion per year. Today I can report savings of \$1 billion in fiscal year 1963—one-third more than planned. Largely because of the rapid progress we have been able to make, we have now raised our goal for fiscal 1967 by about one-third—from the \$3 billion proposed last year to the \$4 billion which is our current goal. As these savings materialize, they are being reflected in the Department's annual budget, helping us to meet the heavy burden of national defense with the least possible demand on the Nation's resources.

ROBERT S. McNAMARA.

APPENDIX 3

RECOMMENDATIONS IN OCTOBER 1960 REPORT

1. The Secretary of Defense should use his broad authority, especially under the O'Mahoney-Douglas and McCormack-Curtis amendments, at once to begin consolidating the many common supply activities in the Department of Defense (DOD) into a common agency operating at the Office of the Secretary of Defense level.

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

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

It must have authority over cataloging and standardization of specifications.

It should be given control over common supply funds.

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

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

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

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

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

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

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

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

APPENDIX 4

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., June 7, 1963.

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

DEAR SENATOR DOUGLAS: In furtherance of the discussions held in your office on May 7, I enclose two copies of a memorandum of understanding between the General Services Administration and the Department of Defense, signed by the Administrator of General Services and the Assistant Secretary of Defense (Installations and Logistics).

This memorandum represents agreement on the transfer to the General Services Administration of the procurement and management of all handtool and paint items, except those which are related to "weapons systems." These items will remain the responsibility of the Department of Defense.

The Bureau of the Budget will continue to work with the two agencies on carrying on the administrative steps necessary to effect the transfers in an orderly manner and in accordance with the time schedule referred to in paragraph 3 of the memorandum of understanding.

With this set of issues resolved, the Bureau and the General Services Administration will now proceed to examine GSA's role in relationship to other civilian agency supply systems. By agreement among the Bureau, the Department of Defense, and the General Services Administration, we shall not pursue other possible transfers between Defense and GSA until there has been a full assessment of the effect upon the Defense Supply Agency of this agreement. It seems to us imperative that DSA now have an opportunity to consolidate its responsibilities with respect to the three military departments.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

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

MEMORANDUM OF UNDERSTANDING BETWEEN THE GENERAL SERVICES
ADMINISTRATION AND THE DEPARTMENT OF DEFENSE

Subject: Procurement and management of handtools (FSG-51 and FSC-5210) and paint (FSG-80).

Based upon our thorough consideration and evaluation of all of the facts, data and other information developed during the course of the joint GSA/DOD/BOB study designed to establish an integrated system for procurement and management of the above two commodities, the following understanding between the Department of Defense and the General Services Administration has been consummated:

1. The Department of Defense shall retain responsibility for the procurement and management of all "weapons systems" items; i.e., those items which are subject to continuous redesign or modification during the production phase, or directly related to a weapon when the weapon is essential to a primary operational mission of a military service.

2. The General Services Administration shall assume responsibility for the procurement and management of all other handtool and paint items. With respect to the items for which GSA will have procurement and management responsibility, the following specific operational relationships shall be assumed:

(a) The Department of Defense to be responsible for:

- (1) Performing cataloging operations and publishing the DOD section of the Federal Catalog;
- (2) Developing and publishing Military Specifications and Standards and revisions and amendments thereto;
- (3) Preparing proposed Federal Specifications and Standards and revisions and amendments thereto, as agreed;
- (4) Conducting mobilization planning;
- (5) Determining general mobilization reserve requirements;
- (6) Funding applicable costs of mobilization reserve stocks;
- (7) Determining desired positioning of general mobilization reserve stocks;

- (8) Performing industrial mobilization planning.
- (b) The General Services Administration to be responsible for:
- (1) Procurement and management;
 - (2) Determining the method of supply necessary to be responsive to military needs;
 - (3) Procurement, on request from a military activity, of any item designated for local purchase;
 - (4) Performing quality control functions for items procured;
 - (5) Developing, in coordination with DOD, and publishing Federal Specifications and Standards and revisions and amendments thereto;
 - (6) With respect to any general mobilization reserve requirement, positioning such stocks in GSA depots as agreed to by the funding Defense agency; maintaining stock accounts for the owning agency; performing or arranging for performance of custodial functions, protection and surveillance of such stocks; rotating "shelf life" item stocks to the extent demand exists. When program changes result in reduction or elimination of mobilization reserves, utilizing the resulting long supply as the first source of supply to meet GSA stock replenishment or direct delivery requirements; reimbursing the owning agency after transfer of ownership to GSA at current GSA cost prices.¹
 - (7) Performing industrial mobilization planning where necessary on items procured, as requested by DOD.
 - (8) "Buying back" quantities of GSA stock items, or similar items, from military requisitioners to meet GSA stock replenishment needs or for direct delivery to meet other customer requirements, reimbursing the owning agency at current GSA cost prices, less return transportation, after transfer of ownership to GSA or to other customers.

3. Implementation of an understanding with DOD on the above-recommended basis would, of course, entail policy and procedural changes which could be jointly developed by the two agencies. We recommend that such implementation be undertaken immediately and be completed not later than September 30, 1963, with respect to paint (FSG 80), and the previously identified 153 handtool items, and no later than December 31, 1963, with respect to the remaining items which would come to GSA under this recommendation for procurement and management.

This agreement shall not constitute a precedent for the alinement of supply management responsibilities of GSA and DOD with respect to any other commodity managed by the two agencies.

BERNARD L. BOUTIN,
Administrator of General Services.

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

JUNE 20, 1963.

MR. ELMER B. STAATS,
*Deputy Director, Bureau of the Budget,
Executive Office Building, Washington, D.C.*

DEAR MR. STAATS: I am in receipt of your letter of June 7, 1963, and the enclosed memorandum of understanding between the GSA and DOD concerning the procurement of handtools and paint.

On the surface, it appears to me that a fair and reasonable solution to the problem has been charted and all parties are to be commended on it.

Your suggestion that DSA be given a period of time in which to consolidate its responsibilities is meritorious and the same reasoning applies to GSA. This is consistent with the thought behind recommendation No. 4 of our report of October 1960.

I expect, however, that you will also present to the subcommittee within the 6 months' period agreed upon at our meeting on May 6, 1963, at least a plan for the orderly development of a Federal supply system as contemplated by the Federal Property and Administrative Services Act of 1949.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

APPENDIX 5

[S. 1877, 88th Cong., 1st sess.]

A BILL To authorize the Administrator of the General Services to coordinate and otherwise provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title II of the Federal Property and Administrative Services Act of 1949 (63 Stat. 377), as amended, is hereby further amended by renumbering section 212 as section 213 and inserting immediately before section 213, as renumbered, a new section 212 reading as follows:

"SEC. 212. (a) It is intended by the Congress in enacting this section to coordinate and otherwise provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment or systems and related equipment and supplies by executive agencies, including the establishment of equipment pools and data processing centers for joint use. It is also the sense of the Congress that automatic data processing equipment or systems should be purchased rather than leased by the Federal agencies except in situations where the leasing thereof clearly can be demonstrated to be in the public interest. To the maximum extent practicable, such equipment or systems required by contractors in the performance of negotiated contracts with the Federal agencies where the whole or a substantial part of the cost of such equipment or systems would become a part of Government contract prices will be furnished by the Government with title or leasehold interest remaining in the Government.

"It is also the intention of the Congress that no executive agency shall be exempted from the provisions of this bill except under extraordinary circumstances.

"(b) Subject to regulations issued by the President pursuant to subsection (c) the Administrator shall in respect of executive agencies and to the extent that he determines so doing is advantageous to the Government in terms of economy, efficiency, or service, after consultation with and with due regard to the program activities of the agencies concerned (1) consolidate, take over, acquire, or arrange for the maintenance or operation by any executive agency of, automatic data processing equipment or systems and other related equipment and supplies, including contractor inventory, or arrange for obtaining similar services by contract; and (2) provide for the purchase, lease, maintenance, or operation of automatic data processing equipment or systems, and establish equipment pools and data processing centers for joint use when necessary for its most efficient and effective utilization. On and after July 1, 1965, existing appropriations, and unless specifically so provided, future appropriations of the agencies concerned, other than appropriations to the fund established under subsection (d), shall not be available for the purchase, lease, or installation of such automatic data processing equipment or systems and other related equipment and supplies as the Administrator consolidates, takes over, or acquires pursuant to this subsection or for obtaining similar services by contract. The Administrator shall, so far as practicable, provide any of the services specified in this subsection to any other Federal agency, mixed ownership corporation (as defined in the Government Corporation Control Act), or the District of Columbia, upon its request.

"(c) The President shall, within ninety days after the effective date of this section, issue regulations under this section providing policy guidance and overall direction and establishing procedures for the taking effect of determinations made by the Administrator pursuant to subsection (b). Such regulations shall also provide for adequate notice to executive agencies of any determinations affecting them or their functions; for independent review and decision as directed by the President of any determination not mutually agreed upon between the Administrator and the agency concerned, including exemption of any agency, in whole or in part, from any determination; and for enforcement of determinations becoming effective under such regulations. No determination made pursuant to subsection (b) shall be binding upon any agency except as provided in such regulations.

"(d) There is hereby authorized to be established on the books of the Treasury a Federal automatic data processing fund which shall be available within such amounts as may be provided annually in appropriation Acts for use by or under the direction and control of the Administrator for paying all elements of cost incident to the acquisition, purchase, lease, maintenance, and operation of automatic data processing equipment or systems and related equipment and supplies; to the establishment of equipment pools and data processing centers pursuant to subsection (b); and to similar services obtained by contract. There are authorized

to be appropriated to the fund such sums as may be required, which sums, together with any adjustments to capital pursuant to subsection (f), shall constitute the capital of the fund. Payments by requisitioning agencies shall be at prices fixed by the Administrator at levels which will recover so far as practicable all elements of such cost, including depreciation of equipment and provision for accrued leave. The fund shall be credited with all reimbursements and refunds or recoveries resulting from operation of the fund, including the net proceeds of disposal of excess or surplus property and receipts for loss or damage to property: *Provided*, That the cost of automatic data processing equipment or systems shall be recovered only through charges for the cost of amortization: *Provided further*, That no part of the cost of automatic data processing equipment or systems acquired by the Administrator without reimbursement shall be recovered through charges to the agency from whom the equipment or systems was obtained but such agency shall consider the cost thereof in fixing the rate or charges for services rendered to the public under authority of law involving the use of such equipment or systems: *And provided further*, That such costs shall be determined in accordance with the accrual accounting method and financial reports shall be prepared on the basis of such accounting.

"(e) Whenever the Administrator takes over pursuant to subsection (b) or section 205(f) any automatic data processing equipment or systems or other related equipment or supplies from any Government corporation, or from any other agency, if such equipment or supplies have been acquired by such agency through expenditures made from, and not theretofore reimbursed to, any revolving or trust fund authorized by law, the Administrator shall reimburse such corporation or fund by an amount equal to the fair market value of the equipment or supplies so taken over. If thereafter the Administrator returns to such corporation or agency any automatic data processing equipment or other related equipment or supplies, the Administrator shall be reimbursed, by the payment to him, by such corporation or from such fund, of an amount equal to the fair market value of the equipment or supplies so returned.

"(f) When reimbursement is not required under subsection (e), the value, as determined by the Administrator, of any automatic data processing equipment or other related equipment or supplies taken over under the authority of subsection (b) or section 205(f) may be added to the capital of the fund, and in the event that property similar in kind is subsequently returned, the value thereof may be deducted from the fund.

"(g) Following the close of each fiscal year any net income, after making provision for prior year losses, if any, shall be transferred to the Treasury of the United States as miscellaneous receipts.

"(h) Subject to the regulations issued by the President pursuant to subsection (c), the Administrator is authorized to issue such regulations as he determines necessary to carry out the provisions of this section."

APPENDIX 6

MILITARY COMMISSARIES AND PX'S

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
MANPOWER (MILITARY PERSONNEL POLICY),
Washington, D.C.

Memorandum for Comdr. J. H. Fitzgerald, Deputy Director, Office of Legislative Liaison.

Subject: Expression of continued interest in commissary and exchange operations by Mr. Ray Ward, staff, Joint Economic Committee.

In reference to your memorandum of May 17, 1963, on the above subject, the following additional information is submitted.

Attached is a table showing the basis for continuation of commissaries for calendar year 1963.

The criteria for the establishment or continuance of commissary stores for adequacy is:

1. The available commercial facilities must offer to the prospective patron the same departments normally found in commissary stores—groceries; meats; meat products and seafoods; dairy products; frozen fruits and vegetables; and authorized miscellaneous household items. It is not required that all of these broad categories be incorporated in any one store but they must be available from commercial sources within the immediate shopping area.

2. The commercial facilities must offer, in each of the categories enumerated above, a reasonable selection of individual items. It is not intended that the

selection must contain the finest quality items but a reasonable number of better known, nationally or locally established brands must be available.

3. The commercial facility or facilities must have the capacity to serve all commissary patrons quartered on the installation and those quartered closer to the commissary store than to adequate commercial facilities. Commercial facilities which do not have the floor space, are below acceptable sanitary standards as determined by the installation commander, or do not sell meats and poultry (including products thereof) originating from official establishments operating under the supervision of the Meat Inspection Division, Bureau of Animal Industry or the Poultry Inspection Service, Production and Marketing Administration, U.S. Department of Agriculture, will not be considered.

The criteria for convenience is as follows:

1. The commercial store or shopping area must be located on an adequate hard-surfaced road network that is kept open the year around. Travel time by private conveyance under normal traffic conditions should not exceed 10 minutes.

2. If any patron quartered on the installation does not have private transportation, adequate commercial or military transportation is required. A one-way trip by commercial transportation, or military if commercial is not available, should not exceed 15 minutes and the interval between scheduled trips should not exceed 30 minutes.

3. Travel time by private conveyance shall be measured from the center of the quarters area under the control of the installation commander to the nearest adequate commercial facility. Where there is more than one such housing area, the number of quarters in each housing area shall be multiplied by the travel time from the approximate center of each area and the combined sum shall then be divided by the total number of quarters to determine the average travel time. Travel time by commercial transportation shall be determined on the same basis, and the average time required to walk from the quarters to the bus stop and from the bus stop closest to the commercial facility to such store added thereto.

4. When less than 50 families are quartered on the installation or immediately adjacent thereto, commercial facilities shall be determined convenient if travel time does not exceed 15 minutes by private conveyance or 20 minutes by public conveyance (commercial or military) operated on an hourly schedule. When no persons are quartered on the installation or immediately adjacent thereto, commercial facilities shall be determined convenient.

There is no criteria for the establishment or continuance of operation of the Armed Forces exchanges. Each military installation in the Washington area is authorized an exchange. The basis of continuance of operation of each of the commissaries in the metropolitan Washington area is as follows:

Location	Basis for continuance	Price differential (percent)
Fort Myer, Va.....	Price differential.....	29.14
Cameron Station, Va.....	do.....	35.37
Fort McNair, D.C.....	do.....	29.72
Bolling Air Force Base, D.C.....	do.....	35.75
Walter Reed Army Medical Center.....	do.....	33.79
Andrews Air Force Base, Md.....	Convenience and price differential.....	30.88
Fort Belvoir, Va.....	do.....	35.96
Fort Meade, Md.....	Price differential.....	31.16

JAMES M. CAMPBELL,
Colonel, U.S. Air Force,
Assistant Director, Compensation Affairs.

OFFICE OF THE SECRETARY OF DEFENSE,
MANPOWER (MILITARY PERSONNEL POLICY),
Washington, D.C.

Memorandum for Comdr. J. H. Fitzgerald.
Subject: Questions pertaining to commissary operations.

Reference your memorandum of May 7, 1963, pertaining to additional questions on commissary operations by Ray Ward.

In reply to these questions the following information is submitted:

1. The Cameron Station commissary does sell goods at delivered cost plus a 3-percent surcharge on each sale which is collected at the checkout stand.

2. The 1954 Department of Defense Appropriation Act and each subsequent act contains a requirement that commissary stores may be operated only where the Secretary of Defense has certified that commercial stores are either inadequate, inconvenient, or not reasonable in price. Commercial price is considered to be reasonable when it does not exceed the cost price to the commissaries by more than 20 percent. This criteria was established in 1949 at the request of the Philbin subcommittee of the House Armed Services Committee.

3. Most commissary stores procure and maintain all required stocks individually. It is more economical for such stores to order large quantities and warehouse them than to repeatedly order small quantities and pay higher administrative and delivery costs. Chainstores are normally closely grouped and served by central warehouses in each geographical location. Individual store requirements are delivered from the central warehouses whenever needed, thus inventories of shelf items of these stores are comparatively small and doubtless turn over more often than most commissary stores.

4. In accord with the DOD Appropriation Act, all commissaries pay the cost of operating equipment, operating supplies, maintenance of equipment, utilities in the continental United States, transportation to and within the 50 States, and wastage, spoilage, and pilferage.

5. The differences between the service commissary operating procedures stems from the fact that they operate under different laws. The Department of the Army and the Department of the Air Force operate under the provisions of title 10, United States Code, section 4621-B, whereas the Department of the Navy and the Marine Corps operate under title 10, United States Code, section 7601. Under these statutes the Department of the Army and the Department of the Air Force generate funds to pay the costs outlined in paragraph 4 above by the assessment of a surcharge on each sale, whereas the Department of the Navy and the Marine Corps generate the funds to pay these costs by a markup to the cost price of individual items.

JAMES M. CAMPBELL,
Colonel, U.S. Air Force,
Assistant Director, Compensation Affairs.

APPENDIX 7

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 21, 1959.

BULLETIN No. 60-2

To the heads of executive departments and establishments.

Subject: Commercial-industrial activities of the Government providing products or services for governmental use.

1. *Purpose.*—The purpose of this Bulletin is (a) to clarify the application of existing policy regarding competition between the Government and private enterprise in the light of executive branch experience under Bureau of the Budget Bulletins No. 55-4 of January 15, 1955, and No. 57-7 of February 5, 1957, and (b) to provide for the evaluation of all commercial-type enterprises not previously reviewed. To make this program more manageable, procedures have been designed to simplify reporting and to permit agencies to direct their major attention to those activities of greatest significance and budgetary impact.

2. *Policy.*—It is the general policy of the administration that the Federal Government will not start or carry on any commercial-industrial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels.¹

3. *Exceptions.*—Because the private enterprise system is basic to the American economy, the general policy establishes a presumption in favor of Government procurement from commercial sources. This has the twofold benefit of further-

¹ "Commercial-industrial activity * * * for its own use" includes the provision of services or products primarily for the use of a Government agency (whether the providing agency or other agencies), but excludes, for the purpose of this bulletin, activities producing a service or product primarily for the public or agency employees. Also excluded are functions which are a part of the normal management responsibilities of a Government agency or a private firm of comparable size (such as accounting, personnel work, and the like). In determining whether an activity is "commercial-industrial" in nature and "can be procured from private enterprise through ordinary business channels," reference may be made to the *Standard Industrial Classification Manual* (available from the Superintendent of Documents, U.S. Government Printing Office). Additional information about both source and ability of private enterprise to provide a product or service may be secured from the Business and Defense Services Administration of the Department of Commerce.

ing the free enterprise system and permitting agencies to concentrate their efforts on their primary objectives. However, in specific situations certain factors may make it necessary or advisable for a Government agency to produce goods or services for its own use. In these situations the burden of proof lies on the agency which determines that an exception to the general policy is required. A finding must be made that there are compelling reasons for Government provision of a product or service before an exception is authorized. All relevant factors must be taken into account, including pertinent economic and social aspects of public policy, even though they may not be the immediate concern of the agency or official directly responsible for the particular activity.

Compelling reasons for exceptions to the general policy include national security; relatively large and disproportionately higher costs; and clear unfeasibility. Each of these is discussed below.

A. *National security*.—"National security" as a compelling reason for continued Government ownership and operation of an activity is not meant to be all inclusive of all products or services with restricted classifications. Commercial contractors operating under proper security clearances and safeguards have been, and should continue to be, essential to the national defense effort. There are instances, however, when for reasons of national security, an activity cannot be turned over to private industry. These activities may include, but are not necessarily limited to, functions which must be performed by Government personnel in order to provide them with vital training and experience for maintaining combat units in readiness.

B. *Costs*.—Continuation of Government operation on the ground that procurement through commercial sources would involve higher costs may be justified only if the costs are analyzed on a comparable basis and the differences are found to be substantial and disproportionately large. In such cases, the costs of both Government operation and private procurement must be fairly computed and complete. The costs assigned to Government operation must cover all direct and indirect outlays, such as pay and other allowances for personal services and leave; contributions for retirement and disability; supplies; materials; transportation; warehousing; utilities; maintenance; repairs, and similar factors. Appraisal of elements not usually chargeable to current appropriations, such as depreciation, interest on the Government's investment,² the cost of self-insurance (even though it is unfunded), and exemption from Federal, State, and local taxes³ must also be made to the extent necessary to put the costs on a comparable basis. On the other hand, costs attributed to procurement from private sources must be computed on an equally fair and complete basis. They should be truly representative of the lowest price the Government would pay for the quantity and quality needed, taking into account all applicable costs of the Government for such procurement, and costs of handling and delivery.

The admissibility of relatively large and disproportionately higher costs as a possible compelling reason for continued Government operation does not alter the general policy which establishes a presumption in favor of Government procurement from commercial sources and does not prohibit procurement from more costly commercial sources. For instance, it may be found to be in the public interest to purchase the product or service, regardless of cost factors, in order to foster or maintain the development or growth of commercial production capabilities to meet ultimate governmental and non-governmental needs at potentially lower costs.

The existence of Government-owned capital assets is not in itself an adequate justification for the Government to provide its own goods or services. The need for continued Government ownership or operation must be fully substantiated. In many instances, evaluation may show that excessive operating costs, obsolescence, replacement costs, or low rates of utilization make continued Government operation unwarranted and liquidation of the asset preferable. Similar examination should be made of any reasons that tend to substantiate a compelling need for continued Government ownership and operation. Even the operation of a Government-owned facility by a private organization through contractual arrangement does not automatically assure that the Government is not

² Initial costs may be used for determining the value of the Government's investment. However, if the initial costs are no longer valid for purposes of a cost analysis, the estimated current fair market value may be used instead.

After having determined the value of the Government's investment in the activity, the interest cost should be computed by using the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the useful life of the item.

³ Benchmarks for estimating taxes may be obtained from tables 1 and 3, *Statistics of Income 1956-1957 Corporation Income Tax Returns*, Publication No. 16, U.S. Treasury Department, Internal Revenue Service.

competing with private enterprise. This type of arrangement could act as a barrier to the development and growth of competitive commercial sources and procurement through ordinary business channels.

C. *Clear unfeasibility.*—Certain products or services may be found to be clearly unfeasible to procure from private enterprise through ordinary business channels due to the fact that the product or service is:

- (1) An integral function of the basic mission of the agency, or
- (2) Not available in the particular instance, nor likely to become available commercially in the foreseeable future because of the Government's unique or highly specialized requirements or geographic isolation of the installation, or
- (3) Administratively impractical to contract for commercially.

4. *Scope of evaluation.*—Each agency shall—

A. Make an evaluation and report of all its commercial-industrial activities not evaluated under Bureau of the Budget Bulletins No. 55-4 or 57-7. This should include activities which are Government owned, contractor operated and those which were established after December 1956.

B. Report the current status of those activities which were evaluated previously under Bulletin No. 55-4 or 57-7, including new starts established prior to December 31, 1956.

To permit speedy evaluation of commercial-industrial activities warranting detailed review and analysis, agencies may indicate their intention to eliminate from all extensive evaluation those activities which must be continued, in whole or in part, because it is clearly unfeasible to procure the products or services from private enterprise through ordinary business channels as defined in paragraph 3C.

When continued Government operation of an activity is determined to be mandatory in the public interest because of one of the compelling reasons enumerated in paragraph 3, such operation should be at a reasonable level of efficiency and economy.

5. *Prompt and orderly action in termination or curtailment.*—Activities which are not authorized as an exception to the general policy because of a compelling reason should be discontinued as soon as reasonably possible. Similarly, activities which are to be curtailed should have their operations reduced as speedily as possible.

Each agency should exercise diligence in carrying out such actions in an orderly way and should proceed on a reasonable time schedule. Adequate notice should be given to the community and employees in advance of discontinuance or curtailment, and each agency should assist employees as necessary in finding other employment. Where statutory changes would be necessary to permit discontinuance or curtailment, the agency head should seek such changes promptly, submitting drafts of legislation or appropriation language, as may be required, to the Bureau of the Budget in the usual manner.

6. *Steps to be taken before establishing new activities.*—No new commercial-industrial activity shall be started until the responsible official has made a formal finding for the record that, due to one of the compelling reasons stated in paragraph 3, Government provision of the product or service is in the public interest. Proposed starts should be subjected to the same review outlined in this Bulletin for the evaluation of existing activities.⁴

7. *Reports.*—The forms are designed for the evaluation of existing and newly established activities not evaluated previously, and to serve as a basis for review of the current status of activities evaluated previously under Bulletins No. 55-4 or 57-7. Instructions for subsequent progress reports will be issued at a later date. It is intended that future reporting will be limited generally to activities (a) whose status has changed since their previous evaluation; (b) for which substantiating data on agency determinations have been requested by the Bureau of the Budget; or (c) which have been newly established since July 31, 1959.

Three types of reports are to be submitted. Paragraphs 7A and 7B apply to commercial-industrial activities established prior to December 31, 1956. The total number of installations and activities in these summary and individual reports should equal the total number of installations and activities listed in the *Inventory of Certain Commercial-Industrial Activities of the Government*,⁵ plus those new starts previously reported to the Bureau of the Budget in accordance with Bulletin No. 57-7. Any differences should be explained.

⁴ Establishment of new activities includes the establishment, acquisition, or reactivation of any commercial-industrial activity, regardless of the annual estimated cost or value of the product or service.

⁵ Issued by the Bureau of the Budget in May 1956.

Those commercial-industrial activities established during the period of January 1957 through July 1959 are discussed in paragraph 7C.

A. Summary evaluation reports of actions and decisions to discontinue, curtail, or continue commercial-industrial activities will be made according to Exhibit 60-2A (copy attached), if the annual estimated cost or value of the product or service is less than \$250,000.

Part I applies to activities previously evaluated in accordance with Bureau of the Budget Bulletins No. 55-4 or 57-7. Part II applies to activities newly evaluated in accordance with Bureau of the Budget Bulletin No. 60-2.

B. Individual evaluation reports of actions and decisions to discontinue, curtail, or continue commercial-industrial activities will be made according to Exhibit 60-2B (copy attached), if the annual estimated cost or value of the product or service is \$250,000 or more.

Part I applies to activities previously evaluated in accordance with Bureau of the Budget Bulletins No. 55-4 or 57-7. Part II applies to activities newly evaluated in accordance with Bureau of the Budget Bulletin No. 60-2.

C. Individual reports of commercial-industrial activities established from January 1957 through July 1959, regardless of the annual estimated cost or value of the product or service, will be made according to Exhibit 60-2C (copy attached).

Two copies of each report shall be submitted to the Bureau of the Budget on or before December 31, 1959. Negative reports should be submitted if appropriate. Detailed substantiating data need not be submitted, but the agency should be prepared to justify its findings.

No reports need be submitted for activities, other than transportation, conducted outside the States of the Union and the District of Columbia.

Up to 50 copies of these report forms may be obtained from the Bureau of the Budget Publications Unit, code 113, extension 2333; if more copies are needed, the agencies should have them reproduced.

8. *Delegation.*—The agency head may delegate to officials within his agency his responsibility for decisions and findings on activities with annual estimated cost or value of product or service of \$1,000,000 or less. In such cases, the one to whom such authority has been delegated must sign the report. No delegation may be made to the official immediately responsible for producing the product or service.

9. *Dissemination of policy.*—The agency head should take appropriate steps to ensure that responsible officials in his agency are familiar with this Bulletin and with the need for continuing review and evaluation. When needed, agency heads shall develop and issue specific instructions and criteria to supplement this Bulletin.

10. *Agency responsibility for continuing review.*—Although this Bulletin does not deal with products or services provided primarily to the public or agency employees, each agency shall keep such activities under continuing review and evaluation to determine if such products or services can be procured from private enterprise through ordinary business channels.

Similarly, although this Bulletin calls only for action and reports on certain commercial-industrial activities conducted by the Government for its own use, agencies are expected to review all commercial-industrial activities on a continuing basis.

By direction of the President:

MAURICE H. STANS, *Director.*

[Attachment A to Bureau of the Budget Bulletin No. 60-2]

INSTRUCTIONS FOR SUMMARY EVALUATION REPORT (EXHIBIT 60-2A) FOR ACTIVITIES WITH AN ANNUAL ESTIMATED COST OR VALUE OF PRODUCT OR SERVICE OF LESS THAN \$250,000

Part I is to be used for those activities evaluated under Bulletins No. 55-4 or 57-7. If the status of these activities is unchanged from the reports previously submitted to the Bureau of the Budget, it will not be necessary to reevaluate them. When former evaluations are found to be obsolete, current reviews should be made under the criteria of Bulletin No. 60-2.

Part II of Exhibit 60-2A is for those commercial-industrial activities not previously evaluated and which are to be reviewed in accordance with Bulletin No. 60-2.

Each part of the report should be clearly identified by checking the appropriate square. There should not be more than one part on a single sheet and a new form should be used for the next part's activities. When a part is completed,

the totals for columns 1, 3, and 4 should be shown. The total number of activities and installations evaluated in parts I and II, when added to those individually reported in Exhibit 60-2B, should equal the total number of activities and installations listed in the *Inventory of Certain Commercial-Industrial Activities of the Government* (issued by the Bureau of the Budget in May 1956), plus those new starts previously reported to the Bureau of the Budget in accordance with Bulletin No. 57-7. Any differences should be explained.

Each part of Exhibit 60-2A is further divided into two sections: Section 1 applies to Government-operated activities and section 2 applies to activities which are Government-owned, contractor-operated.

In addition to checking the appropriate square on each form, the pertinent agency identification should be inserted at the top of the form. Data given should be as of July 31, 1959. All entries on this summary form should be as concise as possible. Detailed substantiating data need not be included, but the agency should be prepared to justify its findings. The reverse side of this form should be used if necessary for sections 1 and 2.

Specific instructions for each column follow:

Section 1 (Government-operated activities)

Columns 1 and 2.—If the activity is listed in the *Inventory of Certain Commercial-Industrial Activities of the Government*, use the same code number and title. If the activity is not listed, use the code number and title from the *Standard Industrial Classification Manual*¹ which best describes the function performed. A brief description of the activity should be included if it is not adequately described in the *Standard Industrial Classification Manual*. All activities which are subordinate to, and operated solely for a major activity, are to be considered as part of that major activity.

Column 3.—Agency action actually completed for each activity should indicate the number of installations discontinued if the activity has been terminated and the facilities disposed of; curtailed if the volume of operation has been reduced but will continue; continued if the volume of operation has not been terminated or reduced, or other action taken with appropriate explanatory comment.

Example: An agency is listed in the *Inventory of Certain Commercial-Industrial Activities of the Government* as having a certain activity at fourteen installations. Actually, however, as of July 31, 1959, six of these installations had been discontinued; three were curtailed, and five were still being continued at the same level of operation. The entry in column 3 would be:

Disc.....	6
Curt.....	3
Cont.....	5
Total.....	14

Column 4.—Where action is pending, the specific action planned and the month and year it is to be completed should be entered in this column. Those activities which have actually been discontinued or curtailed as recorded in column 3, should not be entered in column 4.

In following the example cited above for column 3, of the five installations continued as of July 31, 1959, it is planned to discontinue two by January 1960; curtail one by December 1959; curtail another one by June 1960 and continue one indefinitely. The entry in column 4 would be:

Disc.....	2	1/60
Curt.....	1	12/59
Curt.....	1	6/60
Cont.....	1	
Total.....	5	

¹ Available from the Superintendent of Documents, U.S. Government Printing Office.

Column 5.—This item need not be completed if the activity is to be discontinued at all installations as shown in columns 3 or 4. If, however, a determination has been made to continue or curtail an activity at one or more installations, or to make other exceptions to the general policy, the compelling reasons for continued Government operation should be given in the following terms: national security; increased costs (increased costs must be relatively large and disproportionately high in accordance with paragraph 3B of Bulletin No. 60-2), or clearly unfeasible. The specific reason the product or service is clearly unfeasible to procure from private enterprise through ordinary business channels should be cited from paragraph 3C of Bulletin No. 60-2, e.g., basic mission; unavailable; or administratively impractical.

Thus, in the above example, the compelling reasons should be stated in column 5 for the three installations already curtailed (column 3); the two to be curtailed (column 4), and the one so be continued (column 4) as follows:

National security.....	3
Increased costs.....	2
Unfeasible—Unavailable.....	1
Total.....	6

Section 2 (Government-owned, contractor-operated activities)

Columns 1-5.—Fill out in the same manner as indicated above for columns 1-5 under section 1.

Column 6.—Indicate total value of capital assets. This figure should equal the total value (initial costs) of the buildings, real property and equipment. If available, the estimated current fair market value should also be included.

Column 7.—Indicate as an approximate percentage the degree to which the facility is being operated compared to its capacity.

Column 8.—Indicate the estimated annual cost of the operation to the agency or the estimated value of the product or service.

EXHIBIT 60-2

SUMMARY EVALUATION REPORT OF COMMERCIAL-INDUSTRIAL ACTIVITIES WITH AN ANNUAL ESTIMATED COST OR VALUE OF PRODUCT OR SERVICE OF LESS THAN \$250,000

PART I. ACTIVITIES PREVIOUSLY EVALUATED IN ACCORDANCE WITH BUREAU OF THE BUDGET BULLETINS NO. 55-4 or 57-7

PART II. ACTIVITIES NEWLY EVALUATED IN ACCORDANCE WITH BUREAU OF THE BUDGET BULLETIN NO. 60-2

Agency _____ Bureau or subdivision _____

Additional information will be supplied by:

Name: _____ Approved by: (sign) _____

Title: _____ Tel.No. _____ Title: _____

Section 1. Government-operated activities: _____ Date: _____

Code (1)	Standard Industrial Classification Manual Title and/or description (2)	Agency Determination		Compelling reason(s) that Government provision is in the public interest. (5)
		Action Taken (3)	Action Planned (4)	

(Use reverse side if necessary)

EXHIBIT 60-2A

Agency: _____ Bureau or subdivision: _____

Section 2. Government-owned, contractor-operated activities:

Standard Industrial Classification Manual Code	Agency Determination	Compelling reason(s) that Govt. provision is in the public interest	Production				
			Capital assets (in 1,000)	% Ca- pacity uti- lized	Annual Cost or Value (in 1,000)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

(Use reverse side if necessary)

[Attachment B to Bureau of the Budget Bulletin No. 60-2]

INSTRUCTIONS FOR EVALUATION REPORT (EXHIBIT 60-2B) OF INDIVIDUAL ACTIVITIES WITH AN ANNUAL ESTIMATED COST OR VALUE OF PRODUCT OR SERVICE OF \$250,000 OR MORE

Part I is to be used for those activities evaluated under Bulletins No. 55-4 or 57-7. If the status of these activities is unchanged from the reports previously submitted to the Bureau of the Budget, it will not be necessary to reevaluate them. When former evaluations are found to be obsolete, current reviews should be made under the criteria of Bulletin No. 60-2.

Part II of Exhibit 60-2B is for those commercial-industrial activities not previously evaluated and which are to be reviewed in accordance with Bulletin No. 60-2.

Each part of the report should be clearly identified by checking the appropriate square. There should not be more than one part on a single sheet and a new form should be used for the next part's activities. The total number of activities and installations evaluated in parts I and II, when added to those summarized in Exhibit 60-2A, should equal the total number of activities and installations listed in the *Inventory of Certain Commercial-Industrial Activities of the Government* (issued by the Bureau of the Budget in May 1956), plus those new starts previously reported to the Bureau of the Budget in accordance with Bulletin No. 57-7. Any differences should be explained.

In addition to checking the appropriate square on each form to indicate the applicable part, pertinent agency identification should be inserted at the top of the form. Data given should be as of July 31, 1959.

Specific instructions for each numbered item are as follows:

1. If the activity is listed in the *Inventory of Certain Commercial-Industrial Activities of the Government*, use the same code number and title. If the activity is not listed, use the code number and title from the *Standard Industrial Classification Manual*¹ which best describes the function performed. All activities which are subordinate to, and operated solely for a major activity, are to be considered as part of that major activity.

2. Briefly describe the activity if it differs appreciably from the description contained in the *Standard Industrial Classification Manual*.

3. Identify the city, area, state, or other geographical location of the activity.

4. Check to indicate whether the activity is Government-operated or Government-owned, contractor-operated.

5. The estimated size of the activity as of July 31, 1959, is to be furnished as follows:

a. The total number of man-years should equal the total of civilian and noncivilian man-years, including contract employees if the activity is contractor-operated. The total labor costs should likewise equal the costs of civilian and noncivilian personnel. Where noncivilians are used, indicate the type, such as uniformed service personnel, inmates, patients, or contract.

b. Insert the annual cost or value of supplies and materials used.

c. The total annual cost or value of product or service should equal the total for a and b above.

d. Data for capital assets are required only if the activity is Government-owned, contractor-operated. Initial costs should be given, and if available, the estimated current fair market value should also be included in the appropriate column. Also indicate as an approximate percentage the degree to which the facility is being operated compared to its capacity.

6. Agency determination, based on its evaluation, should be given as follows:

a. Check "Discontinue" if the activity is to be terminated and the facilities disposed of; "Curtail" if the volume of operation is being reduced but will continue; "Continue" if the volume of operation is not to be terminated or reduced, or "Other" with appropriate explanatory comment.

b. Indicate the effective date the action was taken or is planned to be taken.

¹ Available from the Superintendent of Documents, U.S. Government Printing Office.

7. If it has been determined to curtail or continue the activity, or to make other exceptions to the general policy, the compelling reasons for continued Government operation should be given in the following terms: national security; increased costs (increased costs must be relatively large and disproportionately high in accordance with paragraph 3B of Bulletin No. 60-2), or clearly unfeasible. The specific reason the product or service is clearly unfeasible to procure from private enterprise through ordinary business channels should be cited from paragraph 3C of Bulletin No. 60-2, e.g., basic mission, unavailable, or administratively impractical.

Detailed substantiating data need not be included, but the agency should be prepared to justify its findings.

8. Remarks, recommendations, or other comments are invited.

EXHIBIT 60-2B

EVALUATION REPORT OF INDIVIDUAL ACTIVITIES WITH AN ANNUAL ESTIMATED COST OR VALUE OF PRODUCT OR SERVICE OF \$250,000 OR MORE

PART I. ACTIVITIES PREVIOUSLY EVALUATED IN ACCORDANCE WITH BUREAU OF THE BUDGET BULLETINS NO. 55-4 or 57-7

PART II. ACTIVITIES NEWLY EVALUATED IN ACCORDANCE WITH BUREAU OF THE BUDGET BULLETIN NO. 60-2

Agency _____ Bureau or subdivision _____

Additional information will be supplied by: _____ Approved by: (sign) _____

Name: _____ Title: _____

Title: _____ Tel.No. _____ Date: _____

1. Activity code number and title as stated in the Standard Industrial Classification Manual:

2. Brief description of the activity if it is not described adequately in this manual:

3. Location of the activity: _____ City or area _____ State _____

4. Activity is Government operated or Government-owned, contractor-operated

5. Estimated size of the activity as of July 31, 1959 (dollars in thousands):

	<u>Number</u>	<u>Cost or value</u>
a. Civilian man-years	_____	\$ _____
Non-civilian man-years	_____	_____
TOTAL	_____	\$ _____
Type of non-civilians	_____	_____

b. Supplies and materials used \$ _____

c. TOTAL ANNUAL COST OR VALUE OF PRODUCT OR SERVICE: \$ _____

d. Capital assets (required only if Government-owned, contractor-operated):

	<u>Initial Cost</u>	<u>Estimated current fair market value</u>
Buildings and real property	\$ _____	\$ _____
Equipment	_____	_____
TOTAL CAPITAL ASSETS	\$ _____	\$ _____

Percent capacity utilized _____

62 IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES

6. Agency Determination:

a. Discontinue Curtail Continue Other _____
(Specify)

b. Effective date the action was taken or is planned to be taken _____

7. If the activity is not to be discontinued, indicate the compelling reason(s) why an exception to the general policy is warranted:

8. Remarks:

[Attachment C to Bureau of the Budget Bulletin No. 60-2]

INSTRUCTIONS FOR EVALUATION REPORT (EXHIBIT 60-2C) OF INDIVIDUAL COMMERCIAL-INDUSTRIAL ACTIVITIES ESTABLISHED FROM JANUARY 1957 THROUGH JULY 1959

This form applies to all new commercial-industrial activities, regardless of annual estimated cost or value of product or service, established during the period from January 1957 through July 1959 (as defined in Bulletin No. 60-2, paragraph 6).

The pertinent agency identification should be inserted at the top of the form. Specific instructions for each numbered item are as follows:

1. If the activity is listed in the *Inventory of Certain Commercial-Industrial Activities of the Government* (issued by the Bureau of the Budget in May 1956), use the same code number and title. If the activity is not listed, use the code number and title from the *Standard Industrial Classification Manual*¹ which best describes the function performed. All activities which are subordinate to, and operated solely for a major activity, are to be considered as part of that major activity.

2. Briefly describe the activity if it differs appreciably from the description contained in the *Standard Industrial Classification Manual*.

3. Identify the city, area, state, or other geographical location of the activity.

4. Check to indicate whether the activity is Government-operated or Government-owned, contractor-operated.

5. The estimated size of the activity as of July 31, 1959, and on the date it is contemplated to be in full operation (indicate such date) are to be furnished as follows:

a. The total number of man-years should equal the total of civilian and non-civilian man-years, including contract employees if the activity is contractor-operated. The total labor costs should likewise equal the costs of civilian and non-civilian personnel. Where non-civilians are used, indicate the type, such as uniformed service personnel, inmates, patients, or contract.

b. Insert the annual cost or value of supplies and materials used.

c. The total annual cost or value of product or service should equal the total for a and b above.

d. The estimated current fair market value of the capital assets should be given. Also indicate as an approximate percentage the degree to which the facility is being operated compared to its capacity as of July 31, 1959, as well as when the activity will be in full operation.

6. The compelling reason(s) that Government provision of the product or service is in the public interest should be stated in the following terms: national security; increased costs (increased costs must be relatively large and disproportionately high in accordance with paragraph 3B of Bulletin No. 60-2), or clearly unfeasible. The specific reason the product or service is clearly unfeasible to procure from private enterprise through ordinary business channels should be cited from paragraph 3C of Bulletin No. 60-2, e.g., basic mission; unavailable, or administratively impractical.

Detailed substantiating data need not be included, but the agency should be prepared to justify its findings.

7. Indicate the date the activity was established.

8. Remarks, recommendations, or other comments are invited.

¹ Available from the Superintendent of Documents, U.S. Government Printing Office.

EXHIBIT 60-2C

EVALUATION REPORT OF INDIVIDUAL COMMERCIAL-INDUSTRIAL
ACTIVITIES ESTABLISHED FROM JANUARY 1957 THROUGH JULY 1959

Agency _____ Bureau or subdivision _____

Additional information will be supplied by: Approved by:(sign) _____

Name: _____ Title: _____

Title: _____ Tel.No. _____ Date: _____

1. Activity code number and title as stated in the Standard Industrial Classification Manual:
2. Brief description of the activity if it is not described adequately in this manual:
3. Location of the activity: _____
City or area _____ State _____
4. Activity is Government operated or Government-owned, contractor-operated
5. Estimated size of the activity (dollars in thousands):

- a. Civilian man-years
Non-civilian man-years
TOTALS
Type of non-civilians _____
- b. Supplies and materials used
- c. TOTAL ANNUAL COST OR VALUE
- d. Capital assets
Buildings and real property
Equipment
TOTAL CAPITAL ASSETS

July 31, 1959	
Number	Cost or value
	\$
	\$
---	\$
	\$
---	\$
---	\$
---	\$

Full operation Contemplated 19	
Number	Cost or value
	\$
	\$
---	\$
	\$
---	\$
---	\$
---	\$

Percent capacity utilized _____

6. Compelling reason(s) that Government provision is in the public interest:

7. Date activity established _____.

8. Remarks: (Use reverse side if necessary).

APPENDIX 8

DUPLICATE MANAGEMENT OF A-2 CODED ITEMS

Military service coder		Federal stock number	Item management code	12-month issues	Stock on hand ¹
(KE)	Navy	5110-143-8047	A-2	4	0
(CT)	Army	Cutter, counterbore	A-2	0	34
(SR)	Air Force		A-2	4	0
(KE)	Navy	5110-095-3300	A-2	9	8
(SR)	Air Force	Reamer, hand	A-2	0	41
(CT)	Army		A-2	0	0
(KE)	Navy	5110-095-3319	A-2	0	42
(SR)	Air Force	Reamer, hand	A-2	0	0
(KE)	Navy	5110-033-1526	A-2	0	0
(SR)	Air Force	Extension, drill	A-2	0	0
(CT)	Army	5110-031-3273	A-2	32	130
(KE)	Navy	Reamer, hand	A-2	7	35
(SR)	Air Force		A-2	1	57
(CT)	Army	5120-143-8221	A-2	7	42
(SR)	Air Force	Wrench, thermocouple	A-2	43	346
(KE)	Navy	Adapter	A-2		
(CT)	Army	5120-143-8223	A-2	0	42
(KE)	Navy	Driver, thermocouple	A-2	1	20
(SR)	Air Force	5120-143-8227	A-2	0	6
(CT)	Army	Puller, mechanical	A-2		
(SR)	Air Force	5120-143-8229	A-2	0	6
(CT)	Army	Drift, thrust bearing	A-2		
(KE)	Navy	5120-143-8217	A-2	9	56
(SR)	Air Force	Compressor, piston ring	A-2	0	172
(CT)	Army	5120-143-8220	A-2	6	70
(SR)	Air Force	Wrench, packing nut	A-2	241	6
(KE)	Navy		A-2		
(KE)	Navy	5120-302-5378	A-2	0	356
(SR)	Air Force	Button, steel blade test	A-2	8	1,402
(KE)	Navy	5120-302-5380	A-2	10	8
(SR)	Air Force	Wrench, cam-propeller	A-2	0	12
(KE)	Navy	5120-302-5384	A-2	6	93
(SR)	Air Force	Wrench, blade packing collar	A-2	36	21
(CT)	Army	5120-302-5390	A-2	0	1
(KE)	Navy	Wrench, main rotor damper	A-2	1	27
(SR)	Air Force		A-2	0	15
(CT)	Army	5120-302-5394	A-2	4	44
(SR)	Air Force	Nut, mechanical puller	A-2	0	1
(CT)	Army	5120-302-5395	A-2	0	4
(KE)	Navy	Wrench, main rotor inner	A-2	1	2
(SR)	Air Force		A-2	0	0
(JE)	Navy	5120-756-1739	A-2	9	36
(SC)	Air Force	Wrench, spanner	A-2	39	2
(BG)	Army	5120-759-7700	A-2	(?)	(?)
(PA)	Marines	Wrench, spanner	A-2	(?)	(?)
(KE)	Navy	5120-831-4487	A-2	0	0
(SR)	Air Force	Wrench, inlet valve	A-2	0	0
(KE)	Navy	5120-831-4488	A-2	1	0
(SR)	Air Force	Wrench, valve seat	A-2	1	0
(CT)	Army	5120-398-3194	A-2	(?)	(?)
(SR)	Air Force	Pliers, counterweight oil	A-2	(?)	(?)
(CT)	Army	5120-398-2980	A-2	(?)	(?)
(SR)	Air Force	Nozzle, air and gas attachment	A-2	(?)	(?)
(KE)	Navy	5120-398-2915	A-2	(?)	(?)
(SR)	Air Force	Drift, tachometer and suction	A-2	(?)	(?)
(KE)	Navy	5120-398-2911	A-2	0	82
(SR)	Air Force	Drift, main accessory drive	A-2		
(SR)	Air Force	5120-398-2793	A-2	(?)	(?)
(CT)	Army	Pusher, valve tappet ball socket	A-2	(?)	(?)
(CT)	Army	5120-398-2887	A-2	(?)	(?)
(SR)	Air Force	Wrench, crankshaft	A-2	(?)	(?)
(SR)	Air Force	5120-395-8528	A-2	(?)	(?)
(KE)	Navy	Wrench, fixed spline bolt	A-2	(?)	(?)
(SR)	Air Force	5120-395-8329	A-2	(?)	(?)
(CT)	Army	Wrench, nut removing	A-2	(?)	(?)
(SR)	Air Force	5120-394-5124	A-2	(?)	(?)
(KE)	Navy	Puller, mechanical	A-2	(?)	(?)
(SR)	Air Force	5120-398-4260	A-2		
(KE)	Navy	Wrench, spanner, bearing plate	A-2	0	0
(SR)	Air Force	5130-025-2749	A-2	8	28
(KE)	Navy	Power unit, hydrapak	A-2	0	0
(KE)	Navy	5130-169-7635	A-2	3	29
(SR)	Air Force	Fuller, Pratt & Whitney Aircraft	A-2	31	250
(KE)	Navy	5130-169-8200	A-2	2	124
(SR)	Air Force	Drift, Pratt & Whitney Aircraft	A-2	34	42
(KE)	Navy	5130-394-5020	A-2	0	7
(SR)	Air Force	Grip, power unit holding	A-2	0	36

See footnotes at end of table, p. 65.

DUPLICATE MANAGEMENT OF A-2 CODED ITEMS—Continued

Military service coder	Federal stock number	Item management code	12-month issues	Stock on hand ¹
(CT) Army.....	5130-394-5573.....	A-2	0	0
(SR) Air Force.....	Peening tool, throttle.....	A-2	0	4
(CT) Army.....	5130-398-3210.....	A-2	4	32
(SR) Air Force.....	Broach, tachometer drive.....	A-2	0	20
(CT) Army.....	5130-398-3211.....	A-2	4	40
(SR) Air Force.....	Broach, tachometer drive.....	A-2	0	12
(CT) Army.....	5130-398-3212.....	A-2	4	0
(KE) Navy.....	Drive gear, speed wrench.....	A-2	75	352
(SR) Air Force.....	A-2	0	21
(SR) Air Force.....	5133-033-0599.....	A-2	0	0
(KE) Navy.....	Drill, Wright Aeronautical.....	A-2	0	0
(SR) Air Force.....	5133-142-6908.....	A-2	0	7
(CT) Army.....	Counterbore, propeller shaft.....	A-2	0	0
(SR) Air Force.....	5133-143-7942.....	A-2	108	0
(CT) Army.....	Bit, tool, wedge type, piston.....	A-2	0	0
(SR) Air Force.....	5133-203-6255.....	A-2	0	0
(KE) Navy.....	Cutter, counterbore.....	A-2	0	0
(SR) Air Force.....	5133-203-6256.....	A-2	0	0
(KE) Navy.....	Cutter, counterbore.....	A-2	0	0
(KE) Navy.....	5133-203-6257.....	A-2	53	0
(SR) Air Force.....	Cutter, counterbore.....	A-2	0	0

¹ As reported by the military service in 1960.

² No data available.

ACTIVITY CODE

Code

- AA----- Commanding General, U.S. Army Chemical Center and Chemical Corps Materiel Command, Army Chemical Center, Maryland. Attn: CMLAM-M-SYD.
- AB----- Commanding Officer, U.S. Army Chemical Center and Chemical Corps Materiel Command, Army Chemical Center, Maryland. Attn: CMLAM-M-SYD.
- AC----- Commanding General, Chemical Corps Engineering Command, Army Chemical Center, Edgewood, Maryland.
- AJ----- Chief, U.S. Army Engineer Supply Control Office, 412 North Broadway, St. Louis, Missouri.
- AK----- Commanding General, U.S. Army Engineer Maintenance Center, Columbus, Ohio.
- AS----- Office of the Surgeon General, Department of the Army, Washington, D.C.
- BA----- Commanding Officer, Picatinny Arsenal (ORDBB-DC-5) Ordnance Corps, Dover, New Jersey.
- BB----- Commanding Officer, Picatinny Arsenal (ORDBB-DA-2) Ordnance Corps, Dover, New Jersey.
- BC----- Commanding Officer, Ordnance Major Item Supply Management Agency, Chambersburg, Pennsylvania.
- BD----- Commanding General, U.S. Army Ordnance Missile Command, Army Rocket and Guided Missile Agency, Redstone Arsenal, Huntsville, Alabama.
- BE----- Commanding General, U.S. Army Ordnance Tank-Automotive Command, 1501 Beard Street, Detroit 9, Michigan.
- BF----- Commanding General, U.S. Army Ordnance Weapons Command, Rock Island, Illinois.
- BG----- Commanding General, Frankford Arsenal, Philadelphia 37, Pennsylvania.
- BH----- Commanding Officer, Raritan Arsenal, Metuchen, New Jersey.
- BJ----- Commanding Officer, Rossford Ordnance Depot, Toledo 1, Ohio.
- BK----- Commanding General, U.S. Army Ordnance Missile Command, Army Ballistic Missile Agency, Redstone Arsenal, Huntsville, Alabama.
- CA----- Commanding Officer, U.S. Army Clothing and Textile Materiel Center (Retail), 2800 South 20th Street, Philadelphia 45, Pennsylvania.
- CB----- Commanding Officer, U.S. Army Subsistence Center (Retail), 1819 W. Pershing Road, Chicago, Illinois.

<i>Code</i>	
CC-----	Commanding General, Quartermaster Equipment and Parts Commodity Center, Columbus Army Depot, U.S. Army, Columbus, Ohio.
CD-----	Commanding Officer, U.S. Army General Supplies Commodity Center, Richmond Quartermaster Depot, Richmond 12, Virginia.
CE-----	Quartermaster Petroleum Center, U.S. Army, Washington 25, D.C.
CF-----	Commanding General, Quartermaster Catalog Agency, Philadelphia, Pennsylvania.
CL-----	Commanding General, U.S. Army Signal Supply Agency, 225 South 18th Street, Philadelphia 3, Pennsylvania.
CM-----	Commanding Officer, U.S. Army Signal Communications Security Agency, Arlington Hall Station, Arlington, Virginia.
CT-----	Commanding General, U.S. Army Transportation Materiel Command, P.O. Box 209, Main Post Office, St. Louis 66, Missouri.
CU-----	Commanding Officer, Arlington Hall Station, 4000 Arlington Boulevard, Arlington, Virginia.
CV-----	Army Participation Group, U.S. Navy Training Device Center, Port Washington, Long Island, New York.
CY-----	Executive Director, Military Clothing and Textile Supply Agency, 2800 South 20th Street, Philadelphia 45, Pennsylvania.
CZ-----	Executive Director, Military Subsistence Supply Agency, 226 West Jackson Boulevard, Chicago, Illinois.
GA-----	Commanding Officer, U.S. Navy Clothing & Textile Office, 2800 South 20th Street, Philadelphia 45, Pennsylvania.
GD-----	Commanding Officer, U.S. Navy Fuel Supply Office, Washington 25, D.C.
GH-----	Commanding Officer, General Stores Supply Office, 700 Robbins Avenue, Philadelphia 11, Pennsylvania.
GM-----	Commanding Officer, Navy Material Catalog Office, Brooklyn, New York.
GR-----	Commanding Officer and Director, U.S. Naval Training Device Center, Port Washington, New York.
GW-----	Commanding Officer, U.S. Navy Subsistence Office, U.S. Naval Gun Factory, Washington 25, D.C.
HA-----	Chief, Bureau of Ships ("S" Material), Department of the Navy, Washington 25, D.C.
HB-----	Chief, Bureau of Ships ("F" Material), Department of the Navy, Washington 25, D.C.
HD-----	Commanding Officer, Ships Parts Control Center, Mechanicsburg, Pennsylvania.
HH-----	Commanding Officer, Electronics Supply Office, Great Lakes, Illinois.
HM-----	Commanding Officer, Submarine and Reactor Parts Supply Office, Rittenhouse Square Building, 19th and Walnut Streets, Philadelphia, Pennsylvania.
HW-----	Commander, Military Sea Transportation Service, Department of the Navy, Washington 25, D.C.
	Commanding Officer, Fleet Material Support Office, Mechanicsburg, Pennsylvania.
JA-----	Chief, Bureau of Naval Weapons, Department of the Navy Washington 25, D.C.
JE-----	Commanding Officer, U.S. Naval Ordnance Supply Office, Mechanicsburg, Pennsylvania.
JF-----	Commanding Officer, U.S. Naval Ordnance Supply Office, Special Weapons Division, Mechanicsburg, Pennsylvania.
JN-----	Chief, Bureau of Yards and Docks, Department of the Navy, Washington 25, D.C.
JR-----	Commanding Officer, Yards and Docks Supply Office, U.S. Naval Construction Battalion Center, Port Hueneme, California.
JV-----	Chief, Bureau of Naval Weapons, Department of the Navy, Washington 25, D.C.
KA-----	Chief, Bureau of Naval Weapons, Department of the Navy, Washington 25, D.C.
KE-----	Commanding Officer, Aviation Supply Office, 700 Robbins Avenue, Philadelphia 11, Pennsylvania.
KN-----	Bureau of Medicine and Surgery, Washington, D.C.
KX-----	Executive Director, Military Medical Supply Agency, 3d Avenue & 29th Street, Brooklyn 32, New York.

<i>Code</i>	
KY-----	Executive Director, Military Petroleum Supply Agency, Washington 25, D.C.
PA-----	Commanding General, Marine Corps Supply Activity, 1100 S. Board Street, Philadelphia 46, Pennsylvania.
PM-----	Commandant of the Marine Corps, Headquarters, U.S. Marine Corps (Code CSX), Navy Annex, Washington 25, D.C.
SA-----	Commander, Air Materiel Command, ATTN: MCSC, Wright-Patterson Air Force Base, Dayton, Ohio.
SC-----	Commander, San Antonio Air Materiel Area, Kelly Air Force Base, San Antonio, Texas.
SE-----	Commander, San Antonio Air Materiel Area, Kelly Air Force Base, San Antonio, Texas.
SG-----	Commander, Dayton Air Force Depot, Gentile Air Force Station, Dayton, Ohio.
SJ-----	U. S. A. F. Security Service, Kelly Air Force Base, San Antonio, Texas.
SN-----	Commander, Middletown Air Materiel Area, Olmsted Air Force Base, Middletown, Pennsylvania.
SP-----	Commander, Middletown Air Materiel Area, Olmsted Air Force Base, Middletown, Pennsylvania.
SR-----	Commander, Mobile Air Materiel Area, ATTN: MONSCR, Brookley Air Force Base, Mobile, Alabama.
SS-----	Surgeon General, Headquarters, U.S. Air Force, Washington, D.C.
SU-----	Commander, Ogden Air Materiel Area, Hill Air Force Base, Ogden, Utah.
SX-----	Commander, Oklahoma City Air Materiel Area, Tinker Air Force Base, Oklahoma City, Oklahoma.
TA-----	Commander, Sacramento Air Materiel Area, McClellan Air Force Base, Sacramento, California.
TD-----	Commander, San Bernardino Air Materiel Area, Norton Air Force Base, San Bernardino, California.
TE-----	Commander, San Bernardino Air Materiel Area, Norton Air Force Base, San Bernardino, California.
TG-----	Commander, Warner Robins Air Materiel Area, Robins Air Force Base, Georgia.
TH-----	Commander, Warner Robins Air Materiel Area, Robins Air Force Base, Georgia.
TK-----	Commander, Gadsden Air Force Depot, Gadsden Air Force Station, Gadsden, Alabama.
TN-----	Commander, Memphis Air Force Depot, Mallory Air Force Station, Memphis, Tennessee.
TU-----	Commander, Rome Air Materiel Area, Griffis Air Force Base, Rome, New York.
TX-----	Commander, Shelby Air Force Depot, Wilkins Air Force Station, Shelby, Ohio.
TZ-----	Commander, Topeka Air Force Depot, Topeka Air Force Station, Topeka, Kansas.
XA-----	Atomic Ordnance Cataloging Office, Sandia Base, Albuquerque, New Mexico.
XB-----	Field Command, Armed Forces Special Weapons Project, Sandia Base, Albuquerque, New Mexico.
XF-----	Commandant, U.S. Coast Guard, 13th and E Streets, N.W., Washington 25, D.C.
XG-----	Commanding Officer, U.S. Coast Guard Supply Center, 31st Street and 3rd Avenue, Brooklyn 32, New York.
XN-----	Director, National Security Agency, Fort George G. Meade, Maryland.
02-----	Botanic Gardens, Washington, D.C.
04-----	Government of the District of Columbia, Washington, D.C.
06-----	Panama Canal Company, New York, New York.
24-----	Justice Department, Bureau of Prisons, Washington, D.C.
25-----	Justice Department, Federal Prison Industries, Washington, D.C.
42-----	Commerce Department, National Bureau of Standards, Washington, D.C.
44-----	Commerce Department, Washington, D.C.
46-----	Commerce Department, Maritime Administration, Washington, D.C.
48-----	Commerce Department, Civil Aeronautics Administration, Washington, D.C.

68 IMPACT OF MILITARY SUPPLY AND SERVICE ACTIVITIES

Code

- 52----- Department of Agriculture, Washington, D.C.
- 53----- Smithsonian Institution, Washington, D.C.
- 60----- United States Information Agency, Washington, D.C.
- 63----- Post Office Department, Washington, D.C.
- 64----- Department of Health, Education, and Welfare, Washington, D.C.
- 75----- General Services Administration, Federal Supply Service, Wash-
 ington, D.C.
- 77----- Government Printing Office, Washington, D.C.
- 78----- National Advisory Committee for Aeronautics, Washington, D.C.
- 79----- State Department, Washington, D.C.
- 81----- Interior Department, Washington, D.C.
- 89----- Veterans Administration, Washington, D.C.
- 90----- Tennessee Valley Authority, Washington, D.C.
- 91----- Atomic Energy Commission, Washington, D.C.
- 95----- Treasury Department, Washington, D.C.

Additions

- CX----- Executive Director, Military General Supply Agency, Richmond
 Quartermaster Depot, Richmond 12, Virginia.
- KZ----- Executive Director, Military Industrial Supply Agency, 700 Robbins
 Avenue, Philadelphia 11, Pennsylvania, ATTN: GSSO, Code 200.

