

# IMPACT OF MILITARY AND RELATED CIVILIAN SUPPLY AND SERVICE ACTIVITIES ON THE ECONOMY

---

---

## HEARINGS BEFORE THE SUBCOMMITTEE ON DEFENSE PROCUREMENT OF THE JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES EIGHTY-EIGHTH CONGRESS SECOND SESSION

APRIL 16 AND 21, 1964

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1964

32-669

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Washington, D.C., 20402 - Price \$1.25

**JOINT ECONOMIC COMMITTEE**

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

**PAUL H. DOUGLAS**, Illinois, *Chairman*  
**RICHARD BOLLING**, Missouri, *Vice Chairman*

**SENATE**

**JOHN SPARKMAN**, Alabama  
**J. W. FULBRIGHT**, Arkansas  
**WILLIAM PROXMIRE**, Wisconsin  
**CLAIBORNE PELL**, Rhode Island  
**JACOB K. JAVITS**, New York  
**JACK MILLER**, Iowa  
**LEN B. JORDAN**, Idaho

**HOUSE OF REPRESENTATIVES**

**WRIGHT PATMAN**, Texas  
**HALE BOGGS**, Louisiana  
**HENRY S. REUSS**, Wisconsin  
**MARTHA W. GRIFFITHS**, Michigan  
**THOMAS B. CURTIS**, Missouri  
**CLARENCE E. KILBURN**, New York  
**WILLIAM B. WIDNALL**, New Jersey

**JAMES W. KNOWLES**, *Executive Director*

---

**SUBCOMMITTEE ON DEFENSE PROCUREMENT**

**PAUL H. DOUGLAS**, Illinois, *Chairman*

**SENATE**

**JOHN SPARKMAN**, Alabama  
**WILLIAM PROXMIRE**, Wisconsin  
**JACOB K. JAVITS**, New York

**HOUSE OF REPRESENTATIVES**

**WRIGHT PATMAN**, Texas  
**MARTHA W. GRIFFITHS**, Michigan  
**THOMAS B. CURTIS**, Missouri  
**WILLIAM B. WIDNALL**, New Jersey

**RAY WARD**, *Economic Consultant*

# CONTENTS

## CHRONOLOGICAL LIST OF WITNESSES

	Page
Hon. Robert S. McNamara, Secretary of Defense.....	3
Lt. Gen. R. W. Colglazier, Jr., Deputy Chief of Staff for Logistics, Department of the Army.....	36
Hon. J. Glenn Beall, a U.S. Senator from the State of Maryland.....	52
Vice Adm. William A. Schoech, U.S. Navy, Chief of Naval Material.....	54
Lt. Gen. T. P. Gerrity, U.S. Air Force, Deputy Chief of Staff, Systems and Logistics.....	83
Lt. Gen. A. T. McNamara, U.S. Army, Director, Defense Supply Agency, accompanied by Vice Adm. Joseph M. Lyle, U.S. Navy.....	103
Hon. Joseph Campbell, Comptroller General of the United States, accompanied by William A. Newman, Jr., Director, Defense Accounting and Auditing Division; Robert F. Keller, General Counsel; James H. Hammond, J. Kenneth Fasick, and Harold H. Rubin, Associate Directors, Defense Accounting and Auditing Division; Edward J. Mahoney, Associate Director, Accounting and Auditing Policy Staff; Stanley S. Warren, Assistant Director, Defense Accounting and Auditing Division; and Ralph M. Kee, Supervisory Accountant, Defense Accounting and Auditing Division, General Accounting Office.....	129
Bernard L. Boutin, Administrator of General Services Administration, accompanied by Joe E. Moody, General Counsel; Robert T. Griffin, Assistant Administrator; and William P. Turpin, Assistant Administrator for Finance and Administration.....	173
Elmer B. Staats, Deputy Director of the Bureau of the Budget, accompanied by Roger Jones, Special Assistant to the Director; George Mullins, Head of Supply Management Branch, Office of Management and Organization; and Clifford J. Miller, Budget Examiner, Military Division.....	213
Perry M. Shoemaker, Chairman of the Committee on Hoover Commission Task Force Members, accompanied by Theodore G. Klumpp, former Chairman, Hoover Commission Task Force on Medical Services; and Frank Upman, Jr., Executive Secretary of the Committee on Hoover Commission Task Force Members.....	231
William S. Bergman, Chairman, Committee To Reduce Government Competition (an informal organization representing 22 industries).....	259

## WITNESSES AND EXHIBITS

	Page
McNamara, Hon. Robert S., Secretary of Defense.....	3
Need for accurate engineering drawings.....	10
Comptroller's reports valuable to DOD—Progress being made.....	10
Reliability of reports.....	11
Increase in competitive bidding.....	11
Drawings key to competitive bidding.....	11
Competitive bidding between prime and subcontractors.....	11
Tremendous additional potential.....	11
Buying at lowest price.....	12
Breakout for direct purchase.....	13
"Buy American" policy.....	13
Reduced operating costs.....	14
Questions on base closings.....	15
Answers to questions on base closings.....	16
Hearing before final decision.....	17
Special funds to manage and coordinate transition.....	17
Retraining programs.....	18
Economic Adjustment Office.....	19

	Page
McNamara, Hon. Robert S.—Continued	
Community self-discipline.....	19
Hazards in defense contracts.....	19
Obsolescence in defense.....	20
Serving the Nation's interests.....	21
Impact of prime contractors' decisions.....	21
Prime versus subs.....	22
DOD control over primes.....	22
Renegotiation Board's role.....	23
Office of Economic Adjustment—purpose, personnel, plans.....	25
Agency to handle economic impact problems.....	26
Cabinet Committee on production shifts.....	28
Study of defense-operated industrial complex.....	29
Installations survey board.....	29
\$100 million annual "operating expense savings" goal.....	29
Purchase of ADP equipment.....	29
Consolidated common support.....	30
Project 60—contract administration.....	30
Cost reduction by defense contractors.....	30
Commercial bid practice.....	30
Unit price information.....	31
Item inventories.....	31
Cost record of parts.....	32
Project 60 savings.....	33
Training of contract expeditors.....	33
Increasing the tax base—Federal and local.....	33
Affirmative aspects of base closings.....	33
Unfair criticism of Secretary.....	34
Shift from DSA to GSA.....	34
GSA buys \$1 billion annually for defense.....	34
GSA's defense role in mobilization.....	34
Closing of installations antiempire building.....	35
Application of outside suggestions.....	35
Pooling of engineers.....	35
Colglazier, R. W., Jr., Lt. Gen., U.S. Army, Deputy Chief of Staff for Logistics.....	37
Army's cost reduction program.....	45
Army's goal \$818 million savings in fiscal year 1964.....	48
"Operation Garbage Pail".....	49
Overprovisioning of parts.....	52
Beall, Hon. J. Glenn, a U.S. Senator from Maryland.....	52
Schoech, William A., Vice Adm., U.S. Navy, Chief of Naval Material.....	54
Navy cost reduction program.....	67
Navy control over primes and subs.....	68
Status of Brooklyn Navy Yard.....	79
Study being made of all Navy and private yards.....	79
Need for long-range conversion plans.....	80
Project 60.....	80
Pilot study in Philadelphia area.....	80
Importance of engineering drawings.....	81
Breakout program dependent on drawings.....	81
Surplus property in Navy.....	81
Procurement practices and surpluses.....	82
Standardization of shoes—savings.....	83
Gerrity, T. P., Lt. Gen., U.S. Air Force, Deputy Chief of Staff, Systems and Logistics.....	83
Cost reduction program—Air Force.....	83
Spare parts management.....	84
60-percent reduction in spare parts procurement.....	84
Causes of excesses.....	84
Phasing-out of end items.....	85
Modification of equipment.....	85
Interchange program.....	85
Increased effectiveness.....	85
Improvement program.....	86
Automatic data processing.....	86
Personnel training program.....	86
Industrial engineering techniques.....	86



**CONTENTS**

**v**

	<b>Page</b>
<b>Gerrity, T. P., Lt. Gen.—Continued</b>	
Hope to shorten pipelines.....	87
Improved readiness.....	87
Support from DSA and GSA.....	94
Use of subs by prime contractor.....	94
Control over subs.....	94
Switching of subs.....	95
Competitive bids dependent on adequate drawings and specs.....	96
Project 60—contract administration.....	96
Need for training.....	97
Report on followup of GAO reports.....	97
Cost reduction program—DSA.....	102
<b>McNamara, A. T., Lt. Gen., U.S. Army, Director, Defense Supply Agency; accompanied by Vice Adm. Joseph M. Lyle, U.S. Navy, Director-designate, DSA</b>	
DSA receives 13 million requisitions annually.....	103
DSA savings.....	119
Scope of role of DSA.....	119
Coordination with GSA.....	119
Support for all Federal agencies.....	120
Progress in interservice support.....	120
Project Plus.....	121
Matching total assets against needs.....	121
Role of DSA in Project 60.....	122
R. & D. and obsolescence.....	123
Role of Joint Economic Committee.....	123
Future plans of GSA and DSA.....	124
Elimination of inventory items.....	124
Program of item reduction.....	125
Gap in technical and engineering capacity.....	126
<b>Campbell, Hon. Joseph, Comptroller General of the United States</b>	
DOD carefully considers GAO reports.....	130
\$206 million in savings—fiscal year 1963.....	130
Continuing areas for improvement.....	130
R. & D., test, experimental contracts.....	130
\$367,000 needless cost to Navy.....	130
\$1,100,000 loss in another case.....	131
Army buys \$2.9 million of unsuitable instruments.....	131
Army orders quantities of deficient systems.....	131
Unnecessary costs of \$7.4 million—Army.....	132
Need to fix personal responsibility.....	132
Secretary of Defense has instituted an R. & D. program.....	133
Standardization.....	133
\$34.5 million annual standardization cost.....	133
Loss from lack of coordination.....	133
Lack of decision on standards.....	134
Services control standardization.....	134
Nonstandard clothing items.....	135
Utility caps.....	135
Standardization authority in Secretary of Defense.....	136
Boots.....	136
Standardization report to Congress.....	136
Overstatement of accomplishments.....	136
Nature of overstatement.....	136
Comptroller General recommends that DSA have power of decision.....	136
Additional recommendations.....	137
Defense contracts.....	137
Need for hard look at contract administration.....	137
Cost reduction potential.....	137
Need for greater personal responsibility.....	137
Government should use its own resources, data, and stocks.....	137
\$29 billion DOD awards, fiscal year 1963—12.7 percent formal advertising.....	137
Detailed engineering data needed to improve competition.....	138
Technical data package.....	138
Restrictive clauses in contracts.....	138

	Page
Campbell, Hon. Joseph—Continued	
Contractor designates restrictive portions.....	138
Clauses ineffectively administered.....	138
Government deprived of use of own data—recommendations.....	139
Navy lost capability to use Government data.....	139
Navy contracted to pay \$1,010,000 for Government's data.....	139
Question of fraud.....	139
Responsibility for action.....	140
Need to establish and protect public rights.....	140
Government should do more direct procurement.....	140
Government should furnish materials.....	140
Contractor price 61 percent over Government's.....	140
Spare parts purchases.....	141
Reason for price discrepancies.....	141
Source price versus contractor's price.....	141
Failure to use millions of excess items on hand.....	141
Large economies possible in Navy.....	142
Army failed to use excesses.....	142
GAO economies.....	142
GAO sampling indicates saving potential.....	142
Need for stricter contract administration.....	143
Cases of excessive costs.....	143
Possible remedial measures.....	143
Authority of contracting officers.....	143
Continued examples of excessive costs.....	144
Contractor charged Army \$321,000 for \$71,000 surplus parts.....	145
Summary of cost reduction possibilities.....	145
Savings through purchase of automatic data processing equipment.....	146
ADP equipment used by military contractors.....	146
GAO doesn't have data on contractor-held ADP equipment.....	147
Tremendous development in use of ADP equipment.....	147
Example of one contractor's use of ADP equipment.....	147
Government furnished equipment.....	148
Need for statistical data.....	148
Need for centralized and appropriate authority.....	148
Douglas' bill, S. 1577, 88th Congress 1st session.....	149
Brooks' bill, H.R. 5171, 88th Congress 1st session.....	149
Some progress during past year.....	149
DOD purchased \$200 million in ADP equipment.....	150
Need for coordinated Federal program.....	150
Comptroller Campbell has strong feeling on ADP program.....	150
Chairman Douglas' letter of March 18, 1964, to Bureau of the Budget.....	150
Report on military commissary stores.....	151
Stores expanded despite statutory requirements.....	151
Illogical criteria used.....	151
Congressional intent to have commissaries in remote areas.....	152
Loss of almost \$150 million annually.....	152
Military personnel employed.....	152
3,000 military and 8,000 civilians employed.....	152
Store customers.....	153
Pay and allowances versus fringe benefits.....	153
Disobedience of law.....	154
Comptroller General recommends legislation.....	155
Laws versus regulations.....	155
Trend toward ignoring the law.....	155
Relative costs for family of four.....	156
Use of market basket approach in pricing.....	156
Eight commissaries in Washington area.....	156
Three-percent surcharge.....	156
Various costs omitted in pricing.....	157
Transportation and utility costs are added.....	157
Total sales inside United States about \$730 million.....	158
Tax base erosion of Government commercial-type operations.....	158
Difficult to include all costs.....	159
Microwave system of Reclamation Service.....	159
Cost comparisons—inclusion of taxes.....	159

	<b>Page</b>
<b>Campbell, Hon. Joseph—Continued</b>	
Speculative nature of taxes in bids.....	159
Priorities in improvements.....	171
Government-furnished material.....	171
Direct furnishing of components and use of excesses.....	172
Titanium and aluminum.....	172
Importance of engineering drawings.....	172
<b>Boutin, Hon. Bernard L., Administrator, General Services Administration, accompanied by Joe E. Moody, General Counsel; Robert T. Griffin, Assistant Administrator; and William P. Turpin, Assistant Administrator for Finance and Administration</b>	173
Role of GSA vis-a-vis DOD.....	174
Paint and handtools.....	174
Plans for fully coordinated national supply system.....	175
Economies from a Federal supply system.....	176
Annual savings of \$50 to \$100 million possible.....	176
Large inventory saving.....	177
Test to be completed by July 1, 1964.....	177
Integration of civil agency supply functions.....	177
Veterans' Administration.....	177
BOB position on Federal plan.....	178
BOB plays important role on transfer of personnel and funds.....	178
Action pending on Post Office.....	178
Administrator's authority under basic act.....	179
Title II—Property management; procurement, warehousing, and related activities.....	179
Post Office Department.....	179
Federal Aviation Agency.....	180
National Aeronautics and Space Agency.....	180
Department of State.....	180
Procurement for oversea use—reduction of gold outflow.....	180
Cataloging and standardization.....	181
Civilian cataloging to be completed in fiscal 1965.....	182
Discontinuance of nonstandard items.....	182
Prospects for large savings.....	182
Strategic and critical materials stockpiling program.....	182
Disposal of excess stockpile material.....	183
National industrial equipment reserve.....	185
Civil defense.....	186
Communications.....	186
Proceedings before Federal and State regulatory bodies.....	188
Interagency motor pools.....	188
Government cost of vehicles.....	189
Excess and surplus property, utilization of contractor inventory.....	189
Automated excess reports.....	189
Rehabilitation.....	189
Integrated surplus personal property disposal.....	190
Surplus disposal program pending in BOB.....	190
Lessening the adverse economic impact incident to deactivation of defense installations.....	190
GSA small business program.....	190
Government-wide procurement regulations.....	191
Formally advertised versus negotiated procurement.....	191
Centralized services.....	192
Automatic data processing.....	192
Report on ADP equipment due about July 1, 1964.....	193
Second and third shift use of ADP equipment.....	193
Ownership of ADP equipment.....	193
Conclusion.....	193
Need support of committee.....	194
GSA savings about \$5 billion since 1949.....	195
Expect another \$5 billion saving in 4 years.....	195
Timetable for pending actions.....	197
Program implementation to take 1½ to 2 years.....	197
Agreement and role of BOB.....	198

	Page
<b>Boutin, Hon. Bernard L.—Continued</b>	
Committee needs schedule of actions.....	198
BOB holding surplus disposal study and post office supply management.....	198
Data on GSA procurement.....	199
Economies dependent on overall reductions.....	199
Two hundred positions reduced by handtool and paint transfer.....	199
Shifts planned to DOD.....	201
Plan for subsistence.....	201
Electronics, medical supplies, petroleum supplies.....	201
DOD managing civilian supply.....	201
Is military science involved?.....	201
Study involves 100,000 items.....	202
What is best permanent system?.....	202
Need for basic guidelines.....	202
Preponderance of buying no real criterion.....	203
Procurement of food for troops.....	203
Need for fundamental concepts.....	203
Know-how.....	204
Need to consider long-range point of view.....	204
Three basic problems.....	204
Role of small business.....	204
Small business and advertised bidding.....	205
Drawings and specifications.....	205
Payments in lieu of taxes.....	207
<b>Staats, Elmer B., Deputy Director of the Bureau of the Budget; accompanied by Roger Jones, Special Assistant to the Director; George Mullins, Head of Supply Management Branch, Office of Management; and Clifford J. Miller, Military Division</b>	213
Special examinations by the Bureau of the Budget of selected defense procurement and supply problem areas.....	215
Examination of tank automotive supplies.....	215
Procurement of technical components and repair parts.....	216
Improvement in Navy materiel programs.....	216
Management of stock funds.....	216
Improvement in stock fund operations.....	217
Role of GAO and congressional committees.....	217
Agreement on stock fund criteria.....	218
Test of excess property utilization.....	218
Consolidated procurement of subsistence supplies.....	218
Civilian portion of the Federal catalog.....	219
A Federal supply and services system.....	220
Timetable on Federal supply actions.....	221
Agreements to be reflected in 1966 budget.....	221
Great difficulties not anticipated.....	221
Commercial-industrial activities.....	221
Policy in Bulletin 60-2 generally OK.....	222
Cost elements—taxes.....	222
Comptroller General's decision re taxes.....	222
Advisory group assisting.....	222
Ropemaking at Charlestown.....	222
Trying to provide guidelines.....	222
Tax loss a cost.....	223
Interest on plant.....	223
Lease versus purchase of ADP.....	223
Progress in fiscal 1964—savings.....	224
Interagency Committee on ADP.....	224
Obsolescence of equipment.....	226
Sharing equipment.....	226
Extended utilization of leased ADP equipment.....	227
Other features of the Bureau's program.....	227
Expenditures for leased equipment.....	227
Rentals paid on electronic data-processing equipment.....	227
\$175 million net savings as of 1968.....	228
Pending legislation.....	228

	Page
Shoemaker, Perry M., Chairman of the Committee of Hoover Commission Task Force Members; accompanied by Theodore G. Klumpp, former Chairman, Hoover Commission Task Force on Medical Services; and Frank Upman, Jr., Executive Secretary of the Committee of Hoover Commission Task Force Members	231
DOD property holdings of \$171 billion	232
Procurements of \$28.1 billion	232
Hoover Commission emphasis on business organization	233
DSA successes	233
Much to be done	233
Common civilian items should go to GSA	233
GSA making progress	234
Government supply system	234
Civilian-type operations in a civilian agency	234
Need to improve in standardization program	234
Concerned by Comptroller General's testimony	234
McCormack-Curtis amendment—Common services	235
Government-wide functions	235
Commissaries and PX's	235
Commercial-industrial activities	235
Public Law 108, 83d Congress—test of essentiality	236
Twenty-two recommendations of Hoover Commission	236
Shipbuilding	236
Reserve and industrial facilities	237
Scrap metal processing	237
Commissaries and PX's	237
Increase of commissaries	237
Bakeries, meatcutting plants, clothing plants, etc.	238
Dental, orthopedic, surgical, etc., facilities	238
Review of legislation	238
Postal savings system	238
Parcel post rates	238
Postal rates and subsidies	238
Mailbags and locks	239
Alaska railway	241
Helium production	241
Oil from shale	241
Park concessions	241
Contracts for service	241
Abaca and nickel production	241
Executive printing plants	241
Chemical research	242
Private service contracts for bakeries, laundries, etc.	242
Time schedule of deactivations	242
BOB preparing new order	242
DOD has made progress	243
Role and status of BOB	243
Other Hoover Commission recommendations	243
Hospital and medical services	243
Lending agencies	243
Personnel and civil service	244
Real property management	244
Water resources and power	244
Current developments	245
Nuclear power versus coal	246
Budget and accounting	247
Committee hearings	248
Bipartisan approach of committee	248
Klumpp, Dr. Theodore S., testimony	248
Hoover Commission recommendations on medical and hospital services	249
Small accomplishment	249
Chairman Douglas comments on Mr. Shoemaker's testimony	254
Absence of competition in private sector	254
Government participation required for breakthrough	255
Oil from shale	255
Desalination of water	256

	Page
<b>Klumpp, Dr. Theodore S.—Continued</b>	
Multiple use of resources.....	256
Use of railways for low-value cargo.....	256
Trainload rates.....	256
ICC approves trainload rates.....	256
Trainload rates on grain.....	257
Updating antitrust laws.....	258
Tax base—ratio Government to private investment.....	258
<b>Bergman, William S., Chairman, Committee To Reduce Government Competition</b>	259
Printing industry.....	260
Editorial services.....	261
Employment industry.....	262
Aerospace services industry.....	262
Shipbuilders.....	262
Engineers.....	263
Photogrammetric industry.....	263

### CHARTS

Contracts awarded on basis of competition as a percent of total contract awards.....	7
Cost-plus-fixed-fee contracts as a percent of total contract awards.....	12
<b>Charts included in prepared statement of Lt. Gen. R. W. Colglazier, Jr.:</b>	
1. Cost reduction program.....	37
2. Orientation and publicity.....	38
3. Accomplishment against cost reduction goals, fiscal year 1963.....	38
4. Cost reduction program—progress, first half fiscal year 1964.....	39
5. Chief of Staff principles, etc.....	40
6. Review road division TOE's.....	40
7. Review of requirements.....	41
8. Review QMR's and SDR's.....	42
9. Actions in progress.....	43
10. Reduction in procurement and operating costs.....	44
11. Determine maximum use of civilian and quasi-military-type vehicles.....	45
12. Cost reduction is everybody's business.....	46
<b>Charts and illustrations included in prepared statement of Vice Adm. William A. Schoech:</b>	
More Navy for the dollar, etc.....	55
Navy procurement.....	55
Navy procurement programs.....	56
Naval material support establishment.....	57
Cost reduction program.....	57
Advance procurement planning.....	58
Advance procurement plan, secs. I, II.....	58
Advance procurement plan—sec. II, missile X.....	59
Advance procurement plan covers.....	59
Marine Corps tactical data system.....	60
Tropospheric scatter radio relay terminal.....	61
UHF communications complex.....	61
Ground/air data line.....	62
Radio receiving set AN/WRR-3.....	62
Extent of competition.....	63
Putting the lid on CPFF contracts.....	63
CPFF contracts as a percent of total contract awards.....	64
Letter contracts.....	65
Evaluation of contractor's performance.....	65
Reduction in size of contracts.....	66
Navy contract clause book.....	66
More Navy for the dollar, etc.....	67

Charts included in prepared statement of Lieutenant General McNamara:	Page
I. Areas of interest.....	104
II. Initial assignments, defense programs, new assignments.....	104
III. Workload increase.....	105
IV. Resources.....	106
V. DSA distribution system.....	106
VI. Inventory control points.....	107
VII. Standard defense logistics systems projects.....	108
VIII. Growth of item management.....	109
IX. Defense catalog.....	109
X. Item entry control of resistors.....	110
XI. Item reduction.....	111
XII. Recurring operational savings.....	111
XIII. Fiscal year 1964 procurement program totals.....	112
XIV. Procurement performance.....	113
XV. Examples of value engineering savings.....	113
XVI. Nonrecurring inventory savings.....	115
XVII. Utilization of material.....	115
XVIII. DOD reutilization of phased-out weapons systems materiel.....	116
XIX. Trend in GSA sales to DOD.....	117
XV. DOD/DSA agreement governing supply-management relationships.....	118

## TABLES

Department of Defense cost reduction program.....	5
Categories of procurement, procedures, dollar amount and percent.....	9
Base closing actions, 1962, 1963.....	14
Amounts of Army surplus, generated and disposed.....	49
Anticipated savings, etc., as a result of GSA operations.....	196
GSA procurement in relation to DOD.....	200
GSA expenditures for cataloging, 1950 through 1963.....	207
Summary of military expenditures.....	214
Number and percent of computers purchased and leased by agency for fiscal years 1963 through 1965.....	225
Rentals paid on EDP equipment, fiscal year 1963-65.....	227

## CHRONOLOGICAL REFERENCE TO SUBCOMMITTEE HEARINGS AND REPORTS

1. Staff report, 1960: "Background Material on Economic Aspects of Military Procurement and Supply," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, February 16, 1960, 86th Congress, 2d session.
2. Hearings, 1960: "Impact of Defense Procurement," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 86th Congress, 2d session, pursuant to section 5(a) of Public Law 304 (79th Congress), January 28, 29, and 30, 1960.
3. Report, 1960: "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 Congress, 2d session.
4. Hearings, 1961: "Progress Made by the Department of Defense in Reducing the Impact of Military Procurement on the Economy," hearing before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 87th Congress, 1st session, June 12, 1961.
5. Staff report, 1963: "Background Material on Economic Aspects of Military Procurement and Supply," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, March 1963.
6. Hearings, 1963: "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 88th Congress, 1st session, March 28, 29, and April 1, 1963.
7. Report, 1963: "Impact of Military Supply and Service Activities on the Economy," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 88th Congress, 1st session, July 1963.

8. Staff report, 1964: "Background Material on Economic Aspects of Military Procurement and Supply—1964," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 88th Congress, 2d session, April 1964.

APPENDIXES

APPENDIX 1—PROCUREMENT INFORMATION CENTER

	Page
Memorandum by Ernst-Theodore Arndt submitted in support of a letter of January 15, 1964, addressed to the President of the United States, on the function, need, and value of a procurement information center in Washington, D.C.-----	267
Notice from Small Business Administration, dated Wednesday, August 1, 1962, announcing "one-stop" information center-----	274
Questions by Senator Javits, answers by Bureau of the Budget, concerning closing of the Small Business Advisory Service Center-----	274
Questions by Congressman Curtis, answers by Bureau of the Budget, concerning closing of the Small Business Advisory Service Center-----	278
Letters and statements received for inclusion in the record relating to closing of small business procurement information center:	
Letter from Insinger Machine Co., Philadelphia, Pa.-----	281
Letter from Hon. Kenneth B. Keating, a Senator from New York--	281
Letter from Rector Mineral Trading Corp., New York-----	282
Letter from Select Committee on Small Business, U.S. House of Representatives-----	282
Statement of Hon. James Roosevelt, a Congressman from California--	282
Letter from Hoover Electric Co., Los Angeles, Calif.-----	282
Letter from Congressman James Roosevelt to Hon. Eugene P. Foley, Administrator, Small Business Administration-----	283
Letter from Congressman James Roosevelt to Hoover Electric Co.--	283
Letter from SBA Administrator, Hon. Eugene P. Foley, to Congressman James Roosevelt-----	284
Letter from Congressman James Roosevelt to Hoover Electric Co.--	284
Letter from Continental Drill Corp., Chicago, Ill.-----	284
Letter from Hon. Philip A. Hart, a Senator from Michigan-----	285
Letter from Solventol Chemical Products, Inc., Romulus, Mich.---	286
Letter from the Metropolitan Washington Board of Trade-----	286

APPENDIX 2—GOVERNMENT COMPETITION WITH PRIVATE BUSINESS

Letter and report from Consulting Engineers Council relative to testimony by Committee To Reduce Government Competition-----	287
Letter from Society of American Florists in support of Committee To Reduce Government Competition-----	294
Letter from Legislative Council for Photogrammetry, dated May 11, 1964, supporting Committee To Reduce Government Competition-----	295

APPENDIX 3—"BUY AMERICAN" ACT

Letter from Senator Javits to Senator Douglas containing questions to be asked of Bureau of the Budget, General Services Administration, Department of Defense, State Department, Agency for International Development, and General Accounting Office, relating to administration of the Buy-American Act on the cost of Federal procurement-----	297
Letter and responses from following agencies to questions by Senator Javits:	
Bureau of the Budget-----	298
General Services Administration-----	317
Department of Defense-----	343
Department of State-----	344
Agency for International Development-----	345
General Accounting Office-----	346



CONTENTS

XIII

APPENDIX 4—MILITARY COMMISSARIES

Letter from Comptroller General of the United States covering commissary report to Joint Economic Committee.....	Page 349
Report by Comptroller General: Failure to curtail operation at Government expense of military commissary stores in continental United States where adequate commercial facilities are available.....	350
Letter and statement from Elton Kile, president, National Associated Businessmen, Inc.....	362
Department of Defense reply to GAO commissary report.....	363

APPENDIX 5

Letter from Senator Douglas to Bureau of the Budget.....	367
Bureau of the Budget review of recommendations on medical services and related supply activities (subcommittee report, July 1963, p. 10).....	367
Bureau of the Budget review of recommendations on weather research activities (subcommittee report, July 1963, p. 9).....	381

# THE IMPACT OF MILITARY AND RELATED CIVILIAN SUPPLY AND SERVICE ACTIVITIES ON THE ECONOMY

THURSDAY, APRIL 16, 1964

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

The subcommittee met at 9 a.m., pursuant to call, in room 1202, Senate Office Building, Senator Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senators Douglas, Javits, and Miller; Representatives Griffiths, Curtis, and Widnall.

Also present: James W. Knowles, executive director; Ray Ward, economic consultant; and Hamilton D. Gewehr, administrative clerk. Chairman DOUGLAS. The subcommittee will come to order.

The Subcommittee on Defense Procurement is resuming hearings today on the subject of "The Impact of Military and Related Civilian Supply and Service Activities on the Economy."

The impact of supply and service activities is very great indeed when we consider that the net value of military procurement actions in the United States alone from fiscal years 1951 through 1963 has been \$305,543 billion. The allocation of such sums means economic life or death to the areas involved. Likewise, the allocation of shipping, storing, and the other support activities is of great economic importance to the industries and communities involved. The disposal of \$5 to \$10 billion in surplus property is also big business. The how, when, where, and who of each of these activities which involves millions and even billions of dollars is very important indeed.

But the impact of the Government's procurement and related actions on the economy cannot be measured alone in terms of percentage points. Certainly 8.5 percent of the gross national product for fiscal year 1963 represents a large amount—\$48.3 billion. But the fact that the Government's activities are, to a large extent, superimposed upon the economy may give them a triggering or detonating effect much beyond the percentage points involved.

For example, when the Government went into the market for quantities of coffee and duly announced its intent to do so, the market had a tendency to go up. The same with the purchase of abaca which was controlled by a few importers.

When the Government decides to buy or sell any material that is considered to be in short or critical supply and announces its intent to do so, a chain reaction is set in play.

As an example, the Government decided to procure annually some 80 to 90 million pounds of nickel for the stockpile. This amount, though a fraction of our annual use, was enough to create a shortage or give the belief there was a shortage with the resultant black and gray markets of a few years ago.

Our stockpiling of tin, and many other items, triggers and convulses the industries involved. The converse is true when disposals or even notices of intent to dispose are made.

The subcommittee, as I have repeatedly stated, has not been concerned with such military matters as size of forces, choice of weapons, and general disarmament subjects which other committees are considering.

I might say that a prime consideration, as I wrote to Secretary-designate McNamara in December of 1960, has been the scandalous waste in our military and related civilian procurement and general supply management programs which have so unnecessarily drained the economic lifeblood thus depriving both military and civilian segments of essentialities.

My concern and that of Congressman Curtis and other members of the subcommittee has not been of the "johnny come lately" nature but we have urged, for more than a decade, many of the improvements which are being placed in effect by the great Secretary of Defense, Robert S. McNamara.

We have believed that the defense agencies grew to disorganized and unmanageable proportions, that waste became rampant within and among them. So we have sought to get the optimum of standardization in organization, procedures, forms, items, and so forth. I stress "optimum" with the realization that standardization on the lowest denominator may be ruinous, but this is no excuse for wanton proliferation.

We have sought to compile a list of common activities—not that there is such duplication in each as to require centralization or standardization, but that there may be possibilities for improvement.

We stated in our report of July 1963 that the first step in arriving at solutions is to identify the problem area. This may be in error, as the first step toward improvement is the desire to improve. I know that this is abundantly so with Secretary McNamara, Secretary Morris, and the others in the DOD whom we have had before this subcommittee.

We had considerable discussion last year as to the necessity for the Government to do many activities by force account—that is, by itself—when the tremendous facilities of private industry, properly regulated, could produce, and distribute for the Government while paying taxes needed to support the legitimate activities of the Government. There are certain things that the Government must do that cannot be performed by others or done so well by others. This represents solid wood on the economic tree.

There are other activities of a fungus nature; that is, they are large, spongy, and morbid—and not of the solid wood variety.

Then there is the parasitic growth that lives on its host and eventually kills it and dies in so doing.

We have been concerned about the erosion of the tax structure by the almost innumerable Federal activities in the three classes I have mentioned which cost over \$100 billion a year and which have contributed to a national debt of \$311 billion.

So we have urged the development of an aggressive program with policy guidance from the Executive Office, a systematic review of existing commercial-type activities, a thorough preventive screening of planned activities of this nature and a place where the businessman may take his problems for a fair and judicial review in the light of established policy.

I understand that the Budget Bureau witnesses will tell us of the promised action in this area and that there are a number of industry people who wish to make statements or place them in the record.

Our first witness this morning is the Honorable Robert S. McNamara, Secretary of Defense. Let me congratulate you, Mr. Secretary, on the great job you have done in your short tenure in office. I am sure you will achieve the cost reduction goals you have set. Such savings could not have come at a more appropriate time. I am also happy that President Johnson supports your program so enthusiastically.

I want to express my appreciation to you, Mr. Secretary, for coming before us to testify. I think you have made an extraordinary record of progress in the Defense Department. We have had the privilege of consulting with you from time to time. I want to commend you for the very fine work that you have done.

#### STATEMENT OF HON. ROBERT S. McNAMARA, SECRETARY OF DEFENSE

Secretary McNAMARA. Thank you, Mr. Chairman.

I have a brief statement which, if it suits your purpose, I would like to read to you, reporting upon the progress of our Department's cost reduction program.

I very much appreciate your invitation to appear here today for that purpose. Your personal interest and the interest of your committee and the continued support for our efforts to improve the economy and efficiency of the Defense Department is welcomed by all of us in the Department.

As has been the case in the past, the report of your committee issued in July, last year, on the "Impact of Military Supply and Service Activities on the Economy," contained many stimulating and useful recommendations. Some of these we have already adopted in one form or another.<sup>1</sup>

Last year in my appearance before this committee, I presented a comprehensive statement covering the entire spectrum of our logistics activities and the basic concepts and principles underlying the Department's cost reduction program, and therefore today, rather than review the whole program, I would like to restrict myself to a view of the progress we have achieved since I last reported to you.

I will place special reference on certain matters on which the committee itself has expressed a preliminary or particular interest, leaving most of the time allotted to the principal logistics officers in several services and the defense supply agencies.

That, I think, is quite fitting, for while the top management in the Department can plan the program, can establish objectives, can prescribe the organization and procedures and can follow up on the execution of it, in the final analysis, the success of the effort will depend on the skill and the understanding and the support of the logistics managers who must actually carry it out.

Indeed, I think that a program of this type can succeed only if four basic principles are adhered to. First, it must be vigorously supported by the entire management of the Defense Establishment, starting with the Secretary of Defense and going down to the lowest managerial level, and appropriate organizational arrangements must be made to insure adequate supervision of that program.

<sup>1</sup> See "Report, 1963."

And second, firm, clearly defined goals must be set for each level of logistics management, and the objectives, methods, and procedures of the program must be clearly explained to the people who have to achieve those goals.

Third, there must be a uniform and effective system of progress reporting throughout the Defense Establishment to insure adequate followup on performance.

Finally, both the goals and the result must be thoroughly audited by an independent group to assure that the savings which are reported being bona fide and can be properly substantiated.

Now the cost reduction program currently in effect in the Department has been developed with these principles in mind. Firm, time-phased goals have now been established for 25 distinct logistics management areas, and these are grouped under the three major headings that we referred to last year, "Buying Only What We Need," "Buying at the Lowest Sound Price," and "Reducing the Operating Cost Wherever Possible."

These Department of Defense goals are the aggregates of the individual goals established for the three military services and the defense agencies. The service goals are then further subdivided down to the lowest level of logistics management, so that all of our key logistics managers know exactly what is expected of them.

Within my own office, Mr. Morris, who is here with me today and who is the Assistant Secretary of Defense for Installations and Logistics, has been made directly responsible for the effective operation of the program throughout the Department, and Mr. Hitch, who is our Assistant Secretary of Defense (Comptroller), has been given responsibility for the review, the examination and the validation of all goals and savings reported under the program.

The service Secretaries and the Agency heads have been made responsible for the accomplishment of these goals. And they are required to personally review and approve the reports of progress. Within each of the military departments and the Defense Supply Agency a senior official has been given specific responsibility for the day-to-day administration of the program.

And finally, full-time auditors have been assigned to monitor the program throughout the Department. Definitions of valid savings have been made more precise, and questionable items have been eliminated. Duplications of reported savings have been ferreted out and documentation supporting such savings have been greatly improved.

Chairman DOUGLAS. In other words, your statements of savings are very conservative, are carefully based.

Secretary McNAMARA. I believe so. We are making every effort to avoid a numbers game here. We do not want to fool ourselves, and we do not want to fool the American people.

And thus the policy, objectives, organization, and procedures required to make this program a reality rather than a promise have been firmly established. Although some problems still remain to be solved, I believe it is fair to say that the cost reduction program is now a going concern in every respect.

Last year, when I appeared before the committee, I told you we had set for ourselves a cost reduction goal of about \$3.4 billion in recurring annual savings, and that was about \$400 million more than the goal that I had reported to President Kennedy 9 months earlier.

I am happy to report to you today that this goal has now been raised to \$4 billion a year, and that is shown on the attached table, if you care to refer to it for a moment.  
(The table referred to follows:)

*Department of Defense cost reduction program*

[Dollars in millions]

	Estimated savings to be realized in— <sup>1</sup>			Annual savings by fiscal year 1967 from actions initiated fiscal year 1962 through— <sup>1</sup>		
	Fiscal year 1963	Fiscal year 1964 <sup>2</sup>	Fiscal year 1965 <sup>3</sup>	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
<b>A. Buying only what we need:</b>						
1. Refining requirements calculations:						
(a) Major items of equipment.....	\$90	\$293	\$373	\$106	\$266	\$320
(b) Initial spares provisioning.....	163	133	134	167	144	155
(c) Secondary items.....	481	670	607	481	620	564
(d) Technical manuals.....				6	14	14
(e) Production base facilities.....	35	13	19	35	17	16
(f) Technical data and reports.....		2	4		23	47
2. Increased use of excess inventory in lieu of new procurement:						
(a) Equipment and supplies.....		16	15	164	284	394
(b) Idle production equipment.....	1			1	7	13
(c) Excess contractor inventory.....	18	1	1	18	20	20
3. Eliminating "gold plating" (value engineering).....	72	14	15	72	116	145
Total amount of savings.....				43	48	34
4. Inventory item reduction.....						
Total, buying only what we need.....	860	1,142	1,168	1,093	1,559	1,722
<b>B. Buying at the lowest sound price:</b>						
1. Shift from noncompetitive to competitive procurement:						
Total percent competitive <sup>4</sup> .....	(37.1)			(37.1)	(38.4)	(39.9)
Total amount of savings.....	\$237	\$176	\$216	\$237	\$304	\$375
2. Shift from CPPF to fixed or incentive price:						
Total percent CPPF <sup>5</sup> .....				(20.7)	(19.1)	(12.3)
Total amount of savings.....			\$436	\$436	\$573	\$668
3. Breakout for direct purchase.....					\$11	\$24
Total, buying at lowest sound price.....	\$237	\$176	\$652	\$673	\$888	\$1,067
<b>C. Reducing operating costs:</b>						
1. Terminating unnecessary operations.....	\$123	\$310	\$359	\$336	\$488	\$600
2. Consolidated and standard operations:						
(a) DSA operating expense saving <sup>6</sup> .....	31	38	53	31	39	54
(b) Departmental operating expense savings.....		7	20	1	44	101
3. Increasing efficiency of operations:						
(a) DCA and communication systems savings.....	80	119	49	83	129	66
(b) Improved transportation and traffic management.....	24	12	12	24	23	24
(c) Improved equipment maintenance management.....		28	109	106	191	289
(d) Improved noncombat vehicle management.....	2	12	12	3	12	24
(e) Reduced use of contract technicians.....		9	9		20	27
(f) Improved military housing management.....	6	6	8	6	12	25
(g) Improved real property management.....	23	3	9	23	34	38
(h) Reduced cost of packaging.....		1	1		7	7
Total, reducing operating costs.....	289	545	641	613	999	1,255
Total program.....	1,386	1,863	2,461	2,379	3,446	4,044

<sup>1</sup> Includes certain 1-time savings not expected to recur in future years.

<sup>2</sup> Reflected in the budget.

<sup>3</sup> In addition, fiscal year 1962 "requirements" for major items of equipment were reduced by \$24,000,000,000. Further, in fiscal year 1963, the Army reduced 1964 pipeline requirements by \$500,000,000.

<sup>4</sup> Fiscal year 1961 was 32.9 percent; total annual conversion from sole source by end of fiscal year 1965 of \$1,500,000,000—savings are 25 percent per dollar converted.

<sup>5</sup> For the first 9 months of fiscal year 1961, CPPF was 38 percent; a reduction of \$6,700,000,000 is required to reduce that percentage to 12.3 percent; savings are 10 percent per dollar converted.

<sup>6</sup> Excludes DSA inventory drawdown without replacement of \$276,000,000 in fiscal years 1962-63; \$153,000,000 in fiscal year 1964; and \$83,000,000 in fiscal year 1965, a total of \$512,000,000.

<sup>7</sup> Goals reported to Congress "as estimated Jan. 15, 1963" were: Fiscal year 1963, \$1,894,000,000; fiscal year 1964, \$2,689,000,000; fiscal year 1965, \$3,444,000,000.

Secretary McNAMARA. The \$4 billion goal is on the last line of the last column on the page. You will notice there are six columns on that page, in two sets of three. The first three columns show for fiscal years 1963, 1964, and 1965 the estimated savings that we will actually realize in those years, and those savings have been incorporated in the budget submitted to Congress for fiscal years 1964 and 1965.

The remaining three columns show the savings that will be realized from the decisions made and the actions taken in those 3 fiscal years, 1963, 1964, and 1965, and these savings will be fully realized in the amounts indicated by fiscal year 1967.

There are, of course, certain actions we take in the current fiscal year 1964 which will provide some savings in 1964, but will not realize the full annual rate of saving for 1 or 2 years.

In the case of a base closing, for example, which is staggered over a series of years, the ultimate savings may not be realized for 24 or 36 months, and that is the basic difference between those two sets of columns.

You will also notice that the table is divided into three sections, showing three major categories of our cost-reduction program: "Buying Only What We Need," "Buying at the Lowest Sound Price," and "Reducing Operating Costs." I will have comments on those later.

Senator MILLER. I would like to ask a question on the last three columns of the table.

Secretary McNAMARA. Yes.

Senator MILLER. Is there any companion table which would give us an indication of the impact on the current year's spending?

Secretary McNAMARA. Yes.

Senator MILLER. Of say, action taken in 1963. How that would affect 1965?

Secretary McNAMARA. Yes. The third column which is labeled "1965" shows the actual amount that we took out of the fiscal 1965 budget, \$2,461 million in total, as a result of all of the actions taken to date.

Fiscal 1962, 1963, and 1964 have yielded the budgeted savings of \$2.4 billion for the fiscal 1965 budget.

Now if you wish, we could break that \$2.4 billion down by the point of origin. I would be quite happy to do so.

Senator MILLER. No. If you carry that on to 1966 and 1967, when we got to 1967 would that total amount to the \$4 billion—the \$4 billion shown in the last column?

Secretary McNAMARA. Yes, sir; it would.

Senator MILLER. Thank you.

Secretary McNAMARA. The estimated savings actually realized in fiscal year 1963 totaled almost \$1.4 billion, and as you have seen, savings of almost \$1.9 billion have been reflected in the budget for the current fiscal year—fiscal year 1964. And we are able to identify and reflect a total of almost \$2½ billion in cost reduction savings in the budget submitted for fiscal year 1965.

The cost reduction actions initiated through the end of fiscal 1963 are expected to produce recurring annual savings of almost \$2.4 billion when they are completed.

Progress during the first 6 months of the fiscal year 1964 has been very encouraging, and we are confident that the actions taken through-

out the end of this year will raise the level of savings to \$3.4 billion, which is a long way toward our goal of \$4 billion per year.

Now turning for a few minutes to these three basic areas, dealing first with the category of actions that we catalog under the title "Buying Only What We Need," we are already well along in meeting our 1964 target for this major category of cost reduction actions.

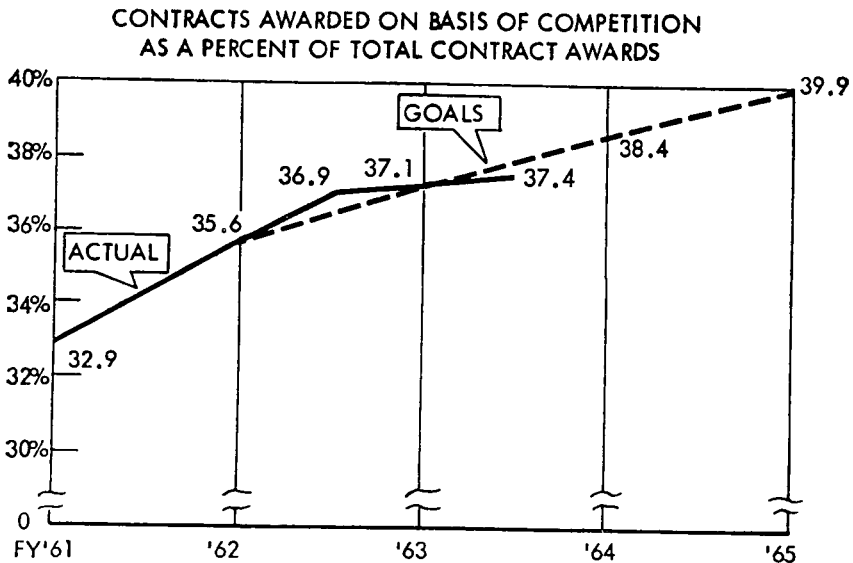
In some areas, it is apparent that we will exceed our goals for the year, although there may be one or two areas in which we will have some difficulty. Refining requirements calculations for major items of equipment for initial spares and for secondary items constitutes the largest part of the savings potential in this category.

General Colglazier, who is here this morning, will discuss the calculation of end-item requirements in the Army, and General Gerrity will do the same for the Air Force. These are management areas in which we have made substantial advances during the past year.

Now turning to the second category of actions, those related to "Buying at the Lowest Sound Price," we continue to make progress in shifting from noncompetitive to competitive procurement.

During the first half of fiscal year 1964, the rate achieved was 37.4 percent of total procurement dollars, and that compares with 36.9 percent for the same period last year and 32.9 percent for fiscal 1961, as you can see in the accompanying chart.

(The chart referred to follows:)



Secretary McNAMARA. And while it will be difficult, we do expect to meet our end of the year goal of 38.4 percent. As a matter of fact, I received a report just before coming over here on the first 9 months of the fiscal year ending March 31, and for that 9-month period, we had 28.2 percent of our procurement placed competitively.

As I indicated to you last year, there are limitations on the percentage of our purchases which can be made on a competitive basis. Where large engineering and tooling costs are involved, for example, and that



is typically the case, as you know, in aircraft, missiles, and many other complex weapons systems, it is unlikely that any new source could compete successfully against the development contractor who had already incurred these costs, and therefore we have no alternative but to place the follow-on procurement contracts with that development contractor and this removes those contracts from the competitive category.

Nevertheless, we developed ways in which to expand the scope of competitive procurement, for example, by "breaking out" components or spare parts from the prime contract, so that these components or spare parts could be procured through competitive procedures.

Senator JAVITS. Mr. Chairman, may I ask one question that is pertinent?

Chairman DOUGLAS. Certainly.

Senator JAVITS. Mr. Secretary, would you give us an optimum figure of the objective which you are seeking? For instance, you gave us \$4 billion; now in respect of competitive procurement you are up to 38.4 percent.

Do you want to give us any optimum figure?

Secretary McNAMARA. Well, our current objective, which we believe, or did believe, represented the optimum, was 40 percent. That would mean an increase from 33 percent in terms of competitive procurement in fiscal 1961 to 40 percent by fiscal 1965. To do so, we will have to shift about \$1.6 billion worth of contracts each year, every year, from noncompetitive to competitive buying.

I think we can accomplish that objective. As a matter of fact, later this year, we will reexamine these so-called optimum levels to determine whether we can raise our objectives. I am very hopeful we can do so in the case of the competitive procurement.

As I will mention in a minute, we feel we save about 25 cents on every dollar shifted from noncompetitive to competitive procurement, and hence an increase in that objective would yield substantial additional savings, if it proves possible.

Admiral Schoech, who is also here this morning, will discuss the advanced procurement planning which is involved in this type of procurement, which serves as a foundation for breaking out these components on major systems, and will give you some specific examples of such actions based on his experience in the Navy.

As I mentioned a moment ago, our present goal is to increase competitive procurement to a level of about 40 percent compared to the 33 percent of fiscal 1961. And as I said, this requires a shifting of about \$1½ billion per year from sole source or noncompetitive to competitive buying, and there is this saving of about 25 cents on every dollar shifted.

About one-third of our competitive procurement is handled through the formal advertising procedure. Thus in the first 6 months of fiscal year 1964, formally advertised contracts accounted for 13.2 percent of our total contracts, and this is up from 11.9 percent in fiscal 1961, and as would be expected, the Defense Supply Agency had the highest percentage of formally advertised contracts, about 42 percent; the Army, 21 percent; the Navy, about 10 percent; and the Air Force about 3 percent.

This reflects the extent of standardized, repetitive procurement for which formal advertising is particularly suitable in each of these agencies.

There are several reasons why formally advertised procurement accounts for only about a third of our total competitive procurement. First, there are certain categories for which we use procedures substantially the same as those for formal advertising, but which by law can't be termed formally advertised procurement, and these include the categories of procurement shown in the table below.

	Fiscal year 1964, first 6 months	
	Amount (millions)	Percent
Purchases under \$2,500.....	\$587.3	4.5
Set-aside—small business and labor surplus.....	585.9	4.4
Purchases restricted to sources outside United States.....	334.6	2.5
Subsistence.....	314.0	2.4
Classified purchases.....	29.9	.2
Emergency purchases.....	47.4	.4
<b>Total.....</b>	<b>1,899.1</b>	<b>14.4</b>

They add to about 14 percent of our total procurement. The largest of those categories, purchases under \$2,500, includes literally millions of transactions each year. About 6½ million, as a matter of fact, in fiscal 1963. These are small purchases made by the thousands by our military installations, usually from local suppliers, and normally on the basis of three or more quotations.

Were we to use the nationwide formal advertising procedures for these millions of transactions, it is estimated our operating costs would be increased substantially. As a matter of fact, one estimate indicated the clerical cost alone to be on the order of \$100 million per year. Although the other categories listed in the table are also handled on a specialized basis, competitive procedures are used.

The next largest category is "set-asides" for small business and labor surplus areas. Here we applied competitive procedures, but by law our mandate is to increase rather than to decrease such awards.

In addition, there are many procurements involving relatively complex technical items, where it is possible to award the contract to the lowest competitive bidder, but where the specifications are not sufficiently precise to permit formal advertising.

In these cases, contracts can't be awarded without extensive discussions and negotiations with the potential contractors on their individual proposals in order to insure that all are bidding on a comparable basis.

We have developed a two-step advertising procedure for much of this procurement, and we hope to extend its use in the future. Under this procedure, bidders are first asked to submit proposals to meet specific performance criteria without regard to price. These proposals are then examined by the Government engineers and buyers, and those which meet the desired performance characteristics are approved.

In the second step, bidders whose products have been approved then present sealed bids, and the contract is awarded to the lowest bidder under the formal advertising procedure.

In the last year, we have more than doubled the use of this particular technique, and we expect it will eventually displace much of our negotiated competitive procurement.

As a matter of fact, I think through this procedure, we should be able to add about 5 percentage points to the formally advertised procurement, which should go far toward meeting the objectives this committee has emphasized over the years.

There will always be special cases where special circumstances, such as the availability of facilities and unique design proposals, will continue to require further negotiation after the bids are in, even though the award is made on the basis of the lowest price.

Chairman DOUGLAS. Mr. Secretary, would you permit me to ask a question at this point?

Secretary McNAMARA. Surely.

#### NEED FOR ACCURATE ENGINEERING DRAWINGS

Chairman DOUGLAS. We have a number of reports here from the Comptroller General, and in these reports, he seems to take the position that one difficulty in getting competitive bidding and being forced to resort to some form of negotiated procurement is a lack of adequate, accurate engineering drawings.

Have you had a chance to review those studies?

Secretary McNAMARA. Yes; I have. As a matter of fact, every Comptroller General's audit report bearing on Defense Department activity is reviewed by Mr. Hitch, my Assistant Secretary and Comptroller. We prepare a written reply to that, and the written reply is approved by either Mr. Vance, my deputy secretary or myself.

#### COMPTROLLER'S REPORTS VALUABLE TO DOD—PROGRESS BEING MADE

We have found the Comptroller General's audit reports very valuable in their bringing to our attention deficiencies in the Department.

Now with specific reference to this point you make, it was first brought to my attention by a newspaper article which summarized a GAO report about 2 or 3 years ago, related to electronics contracts, that starting at that time, we issued instructions that require the services to obtain engineering drawings at the earliest possible date. We have greatly accelerated the availability of such drawings, and this permits either formal advertising for subsequent buys, or at the very least, competitive procurement for such buys, so while I think the charge made may still be applicable, we have made much progress in the last 2½ years in expediting the availability of such drawings.

Chairman DOUGLAS. I know you have done a great deal. I have here some 10 GAO reports,<sup>1</sup> dealing with the inadequacy of engineering drawings including a contract with Westinghouse for a million

<sup>1</sup> GAO reports:

B-146035 dated Dec. 31, 1963  
 B-133396 dated Sept. 17, 1963  
 (Navy)  
 B-133058 dated Sept. 11, 1963  
 B-133396 dated June 28, 1963  
 (Army)  
 B-133396 dated June 28, 1963 (Air  
 Force)

B-146734 dated June 25, 1963  
 B-146748 dated June 31, 1963  
 B-133396 dated Sept. 18, 1961.  
 B-133348 dated Jan. 10, 1961  
 B-133263 dated Jan. 29, 1960

dollars unnecessary costs resulting from noncompetitive procurement of aeronautical spare part replacements, another deals with increased cost resulting from failure to secure price competitively from manufacturer, another deals with other aeronautical replacements of spare parts within the Army, still another deals with aeronautical competitive procurement, aeronautical replacement of spare parts within the Air Force, this one with military gas turbine engines, a contract with United Aircraft, this involves certain uneconomical procurements, certain aircraft parts buying by the Department of the Navy, and so forth.

#### RELIABILITY OF REPORTS

I know that you have a tremendous burden of work. I wondered if you would be willing to state whether you think the criticisms of the Comptroller General in these cases, if you remember them, were approximately accurate.

Secretary McNAMARA. Yes; I believe so, Mr. Chairman. I think that most of those, if I recall them correctly, referred to procurements that were made back in 1961 or earlier.

Chairman DOUGLAS. I think that is true.

#### INCREASE IN COMPETITIVE BIDDING

Secretary McNAMARA. And it is from that base, you see, that we have made such progress, and we were able to increase the volume of contracts placed competitively since that time by about \$900 million per year; \$900 million of buying per year has been shifted from non-competitive to competitive, and the greatest tool that we have used in achieving that shift has been the expediting or acceleration of the development of engineering drawings and specifications permitting competitive bidding where it was not possible before, because of the lack of specifications as a basis for involving more than one company in the contractual process.

#### DRAWINGS KEY TO COMPETITIVE BIDDING

Representative CURTIS. Yes; and in fact, the Secretary has now brought out what I wanted to emphasize. You do feel that this is the key factor in moving, shifting.

Secretary McNAMARA. Oh, very definitely so.

#### COMPETITIVE BIDDING BETWEEN PRIME AND SUBCONTRACTOR

Representative CURTIS. Could I ask one question just on that? I am sorry to be a little late here.

When you gave us the charts on noncompetitive and competitive procurement, did that figure include that which you were able to do through the subcontracting by the primes? Much of your prime contracting would be negotiated, and yet there is a great deal that can be done of—

#### TREMENDOUS ADDITIONAL POTENTIAL

Secretary McNAMARA. No; this does not. That is an entirely additional field of activity that we are moving into now, encouraging our prime contractors to procure competitively from their subcontractors, items previously procured from a sole source and without

competition, and there is a tremendous additional potential for savings in that area.

Representative CURTIS. And again, your engineering drawings and specs become very vital.

Secretary McNAMARA. Yes.

Representative CURTIS. Thank you.

#### BUYING AT LOWEST PRICE

Secretary McNAMARA. If I may proceed, I turn now to "Buying at the lowest price by shifting from cost-plus to fixed-price or incentive contracts."

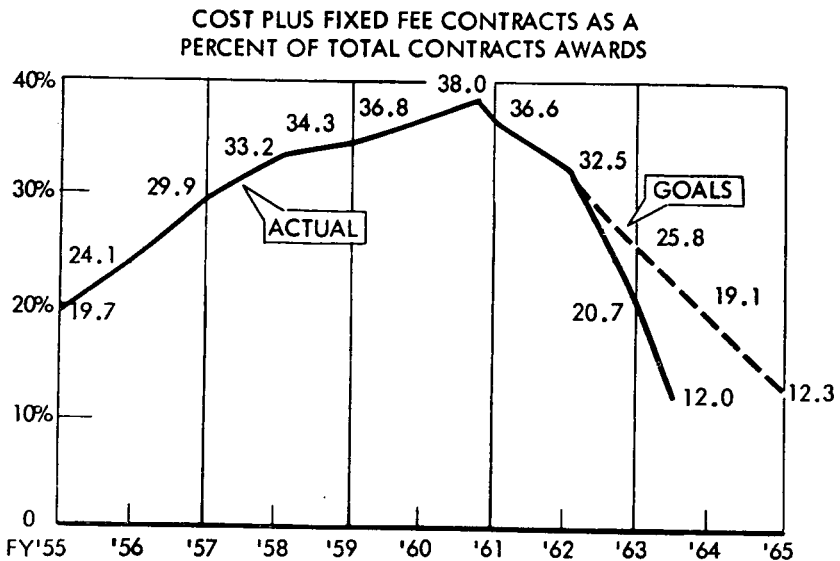
Progress in shifting from cost-plus-fixed-fee to fixed-price or incentive-type contracts has greatly exceeded our expectation.

In the first 6 months of fiscal year 1964, cost-plus contracts accounted for only 12 percent of the total, and that compares with 38 percent in the first 9 months of fiscal year 1961.

In other words, we have cut the volume of cost-plus contracts in relation to other contracts by about 65 percent in that period of time.

Even if the second half of fiscal 1964 is not as good as the first half, we expect the full-year results to better considerably our goal of 19 percent, and you can see the precipitate drop in cost-plus contracts on the chart.

(The chart referred to follows:)



Secretary McNAMARA. This is a significant achievement. As I said, in the short space of less than 3 years, cost-plus contracts as a ratio of total contract awards has been reduced by more than two-thirds. Except for exploratory research and study contracts, cost-plus contracting is the least desirable method of Government procurement, this because it provides the least incentive for economy and superior performance.

This fact has long been recognized, both in the Congress and in the Defense Department, but it has taken a determined effort to reverse the trend.

While it is admittedly difficult to document the savings achieved by this shift away from cost-plus contracts, analysis by our auditors shows that the saving is at least 10 percent on each dollar shifted, and most probably considerably more than that.

These savings, however, are actually realized over a period of years as the work under the contract is accomplished, and therefore, we have reflected in the table a 2-year lag between the initiation of the action and the realization of the saving, and thus the \$436 million in annual savings from actions initiated through fiscal 1963 are shown as realized in fiscal year 1965, and they have been reflected in the budget for that year.

#### BREAKOUT FOR DIRECT PURCHASE

The third area in this category, entitled "Breakout for Direct Purchase" has just been established as a separate project, and no results on accomplishments are available as yet.

This heading refers to the technique of identifying components of end items, design of which has become stabilized and which can be purchased without a degradation of quality directly from the producer instead of from the prime contractor, and thus eliminates the middleman costs.

Senator JAVITS. Mr. Chairman, before the Secretary leaves this whole category, could I ask him just one question?

Chairman DOUGLAS. Certainly.

#### "BUY AMERICAN" POLICY

Senator JAVITS. I notice no reference to the "Buy American" policy, what you have done about that, and how it affects the savings, or balance of payments, or anything else.

Secretary McNAMARA. I can comment on that for you. It is a negative factor in terms of cost reduction. We actually are paying a premium in order to save foreign exchange costs. The gross foreign exchange costs of our military deployments, worldwide, were running \$3 billion per year in fiscal 1961. Against that gross foreign exchange cost of \$3 billion was an offset of about \$300 million representing sales of U.S.-produced military goods and services, and therefore, there was a net foreign exchange cost in fiscal 1961 of our military operations worldwide of \$2.7 billion.

In 1963, fiscal 1963, that had been cut by a billion dollars to \$1.7 billion.

The cut reflected two types of actions. One category represented actions to cut expenditures of foreign exchange, and the other category represented actions to increase the sale of U.S.-produced military goods and services, thereby gaining foreign exchange.

The net of the two categories of actions caused the reduction of a billion dollars in foreign exchange costs, thereby favorably affecting our balance of payments.

Now one of the actions that we took to reduce the expenditures of foreign exchange was the shift of procurement from foreign sources to U.S. sources. I have forgotten the exact volume. I would think

we shifted on the order of \$220 million, probably, of procurement from foreign sources to U.S. sources. We paid premiums as high as 50 percent in order to shift that procurement, but interestingly enough, when we actually came to the point of seeking U.S. sources for such procurement, recognizing we were able to or willing to pay premiums of up to 50 percent, in some cases, we found ways of buying the item in the United States at an actual saving of absolute cost compared to its cost abroad.

One of the most notable examples of that is the saving associated with procuring housing materials in this country in prefabricated form and shipping them abroad for erection on the site. The fiscal 1963 budget, I believe, included \$43 million for construction of housing abroad for military personnel, with a foreign exchange cost of \$38 million of the \$43 million. We shifted that procurement from foreign sources to U.S. sources, saved \$32 million of the \$38 million of foreign exchange, and actually saved in total about \$4 million by using prefabricated housing instead of on-site construction.

Now that is a unique situation. Rarely do we have a net budget saving associated with the shift of procurement, but on balance, we have saved a billion dollars in foreign exchange in part by shifting procurement.

Senator JAVITS. Well, Mr. Secretary, of course we also bought abroad for use in the United States. Do you have any idea as to what this revised policy, both of buying abroad for use in the United States and buying in the United States for use abroad, has cost us in premiums and dollars in 1963?

Secretary McNAMARA. My recollection is that during fiscal year 1963 it has not exceeded \$25 million.

Senator JAVITS. Thank you very much.

Secretary McNAMARA. Even though in certain cases we have gone as high as a 50-percent premium.

Senator JAVITS. Do you recommend the continuance of the policy?

Secretary McNAMARA. I do indeed, sir.

Senator JAVITS. Thank you.

#### REDUCED OPERATING COSTS

Secretary McNAMARA. Now if I may turn to a third category of actions, those lumped together under the heading of "Reduced Operating Costs." Good results are also being achieved in this area. For example, since I last appeared before this committee, considerable progress has been made in terminating unnecessary operations, closing bases and installations which we do not need, and you see in the table presented here the status of our base closings as of December 31, 1962, and as of December 31, 1963.

	Closing actions announced as of—	
	Dec. 31, 1962	Dec. 31, 1963
Number of locations.....	330	480
Real estate released.....acres.....	274,000	645,600
Acquisition cost.....billion.....	\$1.9	\$2.9
Personnel to be released.....	44,923	71,551
Industrial plants with commercial potential made available for sale.....	45	59

The number of actions had increased from 330 at the end of 1962 to 480 at the end of 1963. The number of acres of land released to the private economy from Government military operations increased from 274,000 at the end of 1962 to 650,000, approximately, at the end of 1963. They had an acquisition cost of \$3 billion. The number of jobs eliminated and personnel released increased from 45,000 at the end of 1962 to 71,000 at the end of 1963. The number of industrial plants formerly devoted to military production and under Government ownership and now available for commercial usage increased from 45 to 59, and a figure that is not shown but of course is the most important item of all is that the annual savings resulting from termination of these unnecessary operations rose from \$270 million at the end of 1962 to \$484 million at the end of 1963.

Senator MILLER. Mr. Chairman, I wonder if the Secretary would have some figures showing the openings, also, not to detract from the savings, but to give us a picture of how much of this would be offset by new requirements.

Secretary McNAMARA. Surely.

None of these actions involved offsetting openings. Any openings would be disassociated from the cost reduction program, and entirely a function of additional military forces required for some particular area of our security.

No new military bases were opened in 1963. However, during that year, it was necessary to expand some existing military bases in order to accommodate increases in missions and weapons, such as the Minuteman missile which is being installed at existing SAC bases. To provide the land necessary to accommodate these increases in missions and weapons, it was necessary during 1963 to purchase 6,142 acres of additional land at a cost of \$1,110,132.

Representative CURTIS. Mr. Chairman, would the gentleman yield on that?

Do you think your net would still be a phasing-out?

Secretary McNAMARA. Oh, yes.

Representative CURTIS. Good.

#### QUESTIONS ON BASE CLOSINGS

Senator JAVITS. Mr. Secretary, I would like to lay three questions before you, and I think you can answer them very briefly, but they are critically important. My State is one of the biggest in the Union, perhaps it still is the biggest, we are having a lot of trouble in this very Department, and I will tell you why, and I am not going to bore you about the details of Rome or a particular installation—that is a fight we are having with your Department; we will carry it on, and you will too, I am sure—but there are three points I would like to lay before you:

One, we find that there is no basic source in your Department which is the central agency to review closing as to their overall equity, either on military or community grounds. You go around, the various people that are in charge, it might be the Secretary of that particular service, but I respectfully submit to you that this is so serious on a community level that you ought to have some high level review person or agency that is you, not one of your Secretaries for Air or the other, people want the final decision from you, one.



Two, there is no clearly articulated policy as to what the community is to do, who it is to go to, who it is to work with or how it is to get help in a central way. It is not enough to send them to ARA or the six agencies in the Government. You fellows are closing up, you are an enormous industrial complex, and like any other responsible industrial complex, you ought to have a responsibility for what's going to happen in that vacuum. You can't just let the debris lay on the ground.

And third, there is not enough advance notice in a frank and honorable way as to what's going to happen to people's jobs, livelihoods, and homes.

Now the Brooklyn Naval Shipyard, for example, is in a state of complete doubt and uncertainty. It may not be justified, but there does not seem to be any hard policy to which the people seem to be able to tie.

Now as I say, I am not going to bedevil you, about, you know, the naval shipyard, or Rome, or one particular installation or the other. I do not think that would be fair to you in this kind of a hearing, but I do lay those three questions of policy before you, from our point of view. They are very serious in our community, and I think, looked at in toto in the Defense effort make for tugging and hauling that make your jobs and ours very much more difficult.

Thank you.

#### ANSWERS TO QUESTIONS ON BASE CLOSINGS

Secretary McNAMARA. Let me comment on each of the three. Without implying that there are no problems here, I think there are answers to the points you have made.

First, as to the basic source or central point to review closings in the Department, Mr. Morris, the Assistant Secretary in charge of installation and logistics, reviews every one of these personally. He is that central source, and in addition, every one of the actions I personally review. There have been 479 to date. I have a list of them here, and every one of those, I have personally examined and determined that we are justified in the action we are taking.

Now perhaps we have not explained our action as fully and completely and convincingly as we should have. I think we have been deficient in that sense, and we should be able to do better in the future. Part of the problem in the past has been that the studies underlying these decisions have not been as well organized as they might have been.

I think we are making progress in correcting that.

Now secondly, as to a central point to which the community leaders may go to determine what action can be taken to soften the impact of the decision, here we have established an office known as the Office of Economic Adjustment. It reports to Mr. Morris, and that is the central point in the Defense Department to which a community can go, can turn for help, and that Office is responsible, then, for mobilizing the other departments of the Government, particularly those in the Labor Department and elsewhere, to provide help to the community.

This is still a small effort. We began it and established this department 2 years ago. We can do far more than we have, and we will.

The third point you make of inadequate advance notice is perhaps the most difficult one to meet. In the case of the Brooklyn Navy Yard, for example, it is but one of a series of 11 publicly owned Navy yards. There is no question in my mind but what we have excess capacity in those yards. I believe we will find it in the public interest to close one or more of the yards. I do not know which yard should be closed. It is absolutely impossible for us to carry out a study as complex as this study is without public knowledge of the fact that we are working on it. It will extend over a period of several months, and during that period of time, there is bound to be uncertainty as to the ultimate result.

I do not know of any way to avoid that.

However, I want to emphasize that when we reach a conclusion, the action from that conclusion will be spread over a period of years, in order to provide time for the individuals and the communities affected to adjust themselves to that action, and moreover, it has been our policy, and we hope we will be able to continue that policy, to offer a job opportunity to every individual whose job is terminated.

Now by these actions, I think we are taking every possible opportunity to soften the impact of our decisions upon the individuals and communities affected.

#### HEARING BEFORE FINAL DECISION

Senator JAVITS. Mr. Secretary, I would like to make just two points with you, one a suggestion and the other a request.

I think you will find your community acceptance much better if the community had a feeling that before the decision was nailed down, they had a chance to be heard. That is one of the very big complaints, that you are all set, it is finished, it is done; no matter what they say, their doom is sealed.

#### SPECIAL FUNDS TO MANAGE AND COORDINATE TRANSITION

Secondly, I strongly recommend to you that you come to the Congress—I am only one Senator, but I think I speak the views of many, and that you get some money for the purpose of helping communities meet this shock. It is not enough that there are other agencies of Government. You are the employer, and you are in the best position to do this job, and I do not think that in fairness to yourself—you would do it as president of your company, and you ought to do it as the head of the Defense Department.

You ought to get the resources from us which are necessary to enable you to manage and coordinate the transition and where there is a breakdown, to help in it, and in a direct and practical way.

This is that serious, I assure you, and it will be a big contribution, Mr. Secretary, to what I know you want to do, which is very laudable and patriotic, but which when you get down to the cases of Joe Smith, and Brooklyn, N.Y., or Rome, N.Y., is hurting like anything, especially as so many of these communities, either before or immediately after the defense shutdown, become immediately very severely hit areas from the point of view of local unemployment.

Secretary McNAMARA. I think the latter point is worthy of much study. I do not know exactly how we can meet it. We have attempted

to do so without special appropriations from the Congress. We have utilized funds provided elsewhere in our budget to provide for payment of moving expenses, for example, for individuals for whom job opportunities have been opened up elsewhere in the country.

#### RETRAINING PROGRAMS

We have utilized such expenses for retraining programs to retrain the individual to acquire skills for which there are job openings, but we have not as yet developed or proposed any programs to the Congress for assisting the community itself in contrast to the individuals employed in the Defense Establishment to adjust to the actions. Perhaps we should. We will consider that.

Now on your first point, discussion with the community before action, I think there is considerable merit to that. We are following that program now. As a matter of fact, Friday of this week, for example, I am going to visit the Boston Naval Yard and the naval yard in Portsmouth, N.H., and this is part of a plan under which I will personally visit and discuss with the community leaders the situation in each of the communities possessing a public naval yard.

I have already visited Mare Island, Calif., and San Francisco Naval Yard, and I plan to complete visits to the other 11 before making a final decision, and at those times of visit, I meet with the labor leaders involved, the civic leaders involved, and the other community leaders affected.

Senator JAVITS. Mr. Secretary, I just want to close, and I am so grateful to my colleagues for indulging me, though I think this affects us all so deeply that we are all deeply interested. I want to close by saying that I do not think you are the kind of a man—I am not saying Secretary—man who would want to show the record of a net saving which does not have a deduction of trying to clear up this debris of a most unfortunate and unhappy kind in many cases, and that is what I commend to you.

Secretary McNAMARA. Surely, I think that is an entirely reasonable point, but I want to emphasize that there are hidden costs associated with the signs of omission here. In retrospect, I do not regret any of the actions we have taken to achieve these cost reductions. I do regret that we did not act more quickly on some, and I regret that we have not been able to ferret out more, but having said that, I still support the basic point you make, that we ought to look at the social cost, the true national cost, which involves the cost of adjustment as well as the immediate and detectable savings, and we try to do that before we make a decision.

Senator JAVITS. I thank the Chair.

Chairman DOUGLAS. One comment I would like to make, Mr. Secretary. In the case of Decatur, Ill., your Department was extraordinarily helpful to the community. You closed down the Government installation employing a very large number of people. The community was upset, but Mr. Stedman, who was then working with you, worked very hard and we were able to get a large private company to occupy the building, and it employs now as many people who were former employees. You did your very best to transfer Government workers there to other installations, and the community has

come out of it very well, and I do not think Mr. Stedman is still with you, but when he was with you, he was extraordinarily effective in doing just what the Senator from New York has said.

I want to pay tribute to you for that.

Now, I have been slightly critical of one or two of your decisions, but not critical of you.

Senator JAVITS. Well, may I say, Mr. Secretary, before I leave that subject, that at Rome, N.Y., I wish this had happened, too, because this is one of the worst hit situations that I have ever encountered anywhere in the country, and in my own State.

#### ECONOMIC ADJUSTMENT OFFICE

Secretary McNAMARA. Mr. Chairman, Dr. Stedman was head of the Economic Adjustment Office that I referred to a moment ago. We have had many successes and some failures in applying the services of that Office, and I must say Rome, N.Y., is a good illustration of a failure. It takes two to make a success, and where we have had success, we have had wholehearted cooperation from the local community leaders. I must say we have not had that from Rome. We have had nothing but criticism, extended controversy and debate, and it is this which makes it extremely difficult for us to help a community adjust.

I must be frank and tell you that even where we have complete cooperation, we have also had failures, but we can't possibly succeed where our efforts are resisted by the local communities.

Senator JAVITS. I will try to do something about that, I assure you, and if that is the criterion, we will do our utmost to meet it.

#### COMMUNITY SELF-DISCIPLINE

Representative CURTIS. Mr. Chairman, I must not let this record go this way. I appreciate what the Senator from New York is emphasizing and your attitude. But I think there is a need for a little more self-discipline in this country. We have to realize that what we are after is the defense of the country as well as the defense of the dollar. And I do not happen to feel that the purpose of the Congress is to deter this basic movement that you are making, if it is sound. I happen to think it is sound, and I want to say that there are many Congressmen who have applauded, and will applaud publicly, the moves you are making, even though it affects their own district.

#### HAZARDS IN DEFENSE CONTRACTS

If I were to suggest any education, it would be more along the lines of fostering understanding by communities of what happens when they get a defense contract or a defense installation. They work very hard, and they use their Senators and Congressmen to get these things, but they should realize the transitory nature of defense contracts, and of defense installations. They are buying problems at the very time they are seeking these things.

I, frankly, am just a little bit nettled when the press focuses on those who seem to cry out, but ignores those who defend your actions in the Congress. There are many of us who defend what you are doing, even though it affects our own communities, but it does not seem

to get the publicity. I think the integrity of the Congress is involved in this area as well.

I think you have done a very fine job under very, very difficult circumstances. This is not to detract from the very important points the Senator from New York is making. I think you recognize them. We do have these adjustments, I think, however, that there is a lack of self-discipline on the part of our communities, and our community leaders, who are so intent on getting these installations and contracts in the first place. Then they are unwilling to accept the situation when, because of the movement forward and technological advancement, and so forth, in defense, there is no longer a need for the facility or the contract.

Secretary McNAMARA. Well, I think we can make it easier for those of you who are defending our actions to defend them if we follow some of the suggestions Senator Javits made. He is absolutely correct in implying that we have not as a Government program—and it is not just in the last 3 years we have not done this; as a matter of fact, we have done more in the last 3 years than ever before, I think—but as a Government program, we have not adequately provided for softening the impact of these decisions on the communities, and we have not either done what you have suggested, explained to people beforehand what they are getting into when they take one of these actions.

#### OBSOLESCENCE IN DEFENSE

Representative CURTIS. Yes. Because this is getting to the heart of what I feel this subcommittee is concerned with. I would like to take time and ask one other question.

Would you agree with or comment on whether or not this increased obsolescence in military procurement, military installations, and contracts has accelerated greatly in recent years? Will this continue to accelerate so that there will be more of this obsolescence, and greater need for shift? I was very impressed. I had not realized you had set up this Office of Economic Adjustment. That is, in my judgment, hitting right at it. Does it send information ahead of time to these communities to let them realize that when they get a contract or an installation, they are buying some problems along with it? It is not all a great thing.

In fact, the community might think, if they thought it through, that "maybe we have to do this for the defense of our country," and take one of these big contracts knowing the problems that are going to be created as it is phased out as a result of progress in our research and development in military weapons, and so forth.

There is the problem of rate. I do not think we had as acute a problem, say, 20 years ago. There was not such rapid movement and change in weaponry systems that brings about these economic consequences.

Secretary McNAMARA. Yes, I think that several factors have changed. That the rate of change is faster, greater today, and also when a change occurs, it is a change of greater magnitude, because the item was very complex initially, it was very expensive, it was bought in large quantities, and the complexity and the expense and the large volume concentrated in a single community a very large

proportion of the economic life of that community, and then combining that factor of size with rapidity of change means a community gets a tremendous jolt when we shift a buying pattern.

Now in recognition of that, we are taking our 5-year military force structure and defense budget program and translating it as best we can into the effect on particular communities. It will be another year, probably, before we finish this, but after we complete this kind of a study, and are in a position to maintain it, we should be able to forecast 2, 3, or 4 years in advance the effects of changes in the Defense Department budget on particular communities, and with that as a tool, I think we can then do more to meet Senator Javits' point of working with the communities in advance of the time when they will be hard hit by reduction in employment.

#### SERVING THE NATION'S INTERESTS

Senator JAVITS. Mr. Chairman, if I may just have 30 seconds, then I would like to yield to Mrs. Griffiths.

Mr. Secretary, I think it would be most unfair to me to leave any characterization that I am doing the customary caterwauling about local installations, and I reject that. I won't accept it, because it is not true. But it is one thing to be courageous, as those men in uniform behind you know, and it is another thing to be foolhardy. We do not promote fellows who are just courageous. They also have to have a head on their shoulders, and that is what I am talking about.

I want you to do the thing you are doing. You are doing the right thing for the Nation. But I also want you to do it with the concept of the human being and the human community which is involved, and I say that if our Government can save \$4 billion in this way, great, but we also may have to spend a billion to save the \$4 billion, and perhaps save more, because then we are saving the country, and that is what is critically important in looking at this thing in totality, and I have made my suggestions because I want to back you. I do not want my community heavily on my back unjustly. If it is on my back unjustly, that is my job, but if it is on my back justly, then I must turn to you and say, "You help me to do something about it."

Secretary McNAMARA. I quite agree with what you have said, Senator Javits.

#### IMPACT OF PRIME CONTRACTORS' DECISIONS

Representative GRIFFITHS. Mr. Chairman.

Chairman DOUGLAS. Yes.

Representative GRIFFITHS. Thank you. A feature that interests me is not where you closed down the installation, but where for all practical purposes a prime contractor closes down sites.

May I ask you what kind of review you have on that?

Secretary McNAMARA. I am not certain I understand the case you are referring to.

Representative GRIFFITHS. Well, I think the cases are in the thousands, but I will give you a specific case. A big, eastern prime, purchasing from a sub in my district an item that had never been made before, that was under the inspection of the Navy. There was equipment put into my sub's plants.

## PRIMES VERSUS SUBS

They, themselves, developed the specifics and the Navy inspector watched the whole thing. The prime came into the plant, observed the entire operation, and when finally it was working perfectly, and it had never been made before, although others had tried it, then the Navy inspector said to my sub: "I'm sorry, gentlemen. This is too exotic an item for you. You are too small."

They moved out the equipment. The Navy shut off the site, and the prime is still making it, or making it someplace else.

One, they are using the specifications developed by my sub; two, they are using one item on which the sub actually had a patent, but since it is all secret, they do not even know how many of that particular item the prime has made.

Now the prime broke the sub. They conned them into spending \$500,000 of their own money on the theory that they were going to have the item forever. There is no recourse. This party can't help. They should have had someone tell them that this would not work.

## DOD CONTROL OVER PRIMES

But what I want to know is, (1) are you positive that the prime contractor is actually now supplying that item more cheaply and better than my sub was making it? And (2) have you ever reviewed any of the impact of this type of loss upon a community? This firm employed about 300 people. They now employ three.

Secretary McNAMARA. I would be quite happy to look into that particular case. It sounds to me, based on the facts as you have outlined them, as though the subcontractor has a cause for legal action against the prime. If the facts are as outlined.

Representative GRIFFITHS. Mr. Secretary, I sent this to your office twice, and it has come back every time, "There is no legal cause of action," one, and there is nothing they can do about it.

What I want to know is, how many more of these subs have to be broken? Because it happens—you can listen to any Congressman in this whole Congress, and you will hear one of these examples.

Secretary McNAMARA. Well, I think that each case has to be looked at on its merits. I am not familiar with the one you are speaking of. I do not know the names of the contractors involved, but I will be quite happy to look at it. This is one area we have had very little difficulty, to the best of my knowledge. This is the first time I have heard of a complaint of prime contractor mistreating a subcontractor. We have our contracting officers in the plants and the prime contractors that pay considerable attention to the prime contractor's subcontracting pattern, because we are anxious to see the primes apply a subcontracting pattern that is one which spreads the business as wide as possible, while at the same time assuring adequate quality at the lowest price, and we are paying more and more attention to the subcontracting practices of the prime, and I have had no such instances called to my attention heretofore.

Representative GRIFFITHS. What kind of a review do you have over the contracting officers to make sure they are doing, they are investigating the subcontractors?

Secretary McNAMARA. Each of the services reviews the work of its contracting officers, and Mr. Morris' office does the same thing for me. Our review, however, as a matter of fact, has been directed primarily at the question one of the other members raised earlier: Are we applying competitive practices in subcontracting to the extent we should and can? Heretofore our review has not developed cases of mistreatment of subs by primes. I would be quite happy to have the details of the case you mentioned, examine that, and determine whether it is typical or a unique situation.

Representative GRIFFITHS. It is typical. I sat on another committee where we reviewed these cases one by one; one after another. And I found this quite frequently done. I am interested in knowing whether, when these contracts are moved from one sub to another, whether you are really positive that the prime is getting a better price?

Secretary McNAMARA. Yes.

Representative GRIFFITHS. You are?

Secretary McNAMARA. Yes.

Representative GRIFFITHS. Although in fact, if the prime paid a higher price, it increases his profit rate, does it not?

Secretary McNAMARA. No.

Representative GRIFFITHS. Why not?

Secretary McNAMARA. Because in moving toward, as we have, incentive contracts and fixed-price contracts, if the cost of the subcontracts is increased, the prime contractor's profit goes down. And this is one of the reasons why I very much doubt that prime contractors as a practice are mistreating subcontractors and moving business from low-cost to high-cost contractors. I find that very difficult to believe.

Representative GRIFFITHS. I do not suggest that. I only ask if you are positive it does not occur. In renegotiation, as a matter of fact, once you set it up on a company basis, is this not largely a cost plus a percentage of cost?

Secretary McNAMARA. Oh, definitely not; definitely not.

Representative GRIFFITHS. Why do you think it is not?

Secretary McNAMARA. Because we are moving, as I have said, from cost-plus contracts, which were at a level of 38 percent of our contracts, are now at a level of about 12 or 13, to price incentive and fixed-price contracts.

#### RENEGOTIATION BOARD'S ROLE

Representative GRIFFITHS. But you go in, do you not, the Renegotiation Board goes in and checks the costs, does it not, and permits them a percentage of costs as profit?

Secretary McNAMARA. No; the Renegotiation Board, of course, acts only on the total profit of the corporation.

Representative GRIFFITHS. Yes.

Secretary McNAMARA. It has nothing to do with the negotiation of the price on a particular contract.

Representative GRIFFITHS. Not at all. But it checks the costs on all of them, all of their business, and gives them a percentage of costs for all practical purposes, as profit, does it not?

Secretary McNAMARA. No, I think we may be talking about two different things. The Renegotiation Board itself is a Board which—



Representative GRIFFITHS. It appears before our committee, Mr. Secretary.

Secretary McNAMARA. Pardon me?

Representative GRIFFITHS. It appears before our committee. It appears before the Ways and Means Committee.

Secretary McNAMARA. Well, it has nothing whatsoever to do with the price on a particular contract.

Representative GRIFFITHS. No, but it checks what you made afterward.

Secretary McNAMARA. Only in terms of total business.

Representative GRIFFITHS. It considers the cost, does it not?

Secretary McNAMARA. It considers profits.

Representative GRIFFITHS. And the cost. The profits are in relation to the costs, are they not?

Secretary McNAMARA. Well, it considers the profits in relation to the total volume of business and the degree of risk and the contribution made by the contractor, but it is not a part of the contracting process, and has no effect whatsoever on prices we pay or the forms of contracts that we utilize.

Representative GRIFFITHS. Well, just as a matter of inquiry, and strictly off from this, this type of renegotiation works in favor of a big, multiple prime as opposed to small manufacturers, does it not?

Secretary McNAMARA. When you say this type of renegotiation?

Representative GRIFFITHS. Yes, where you negotiate on a company-wide basis.

Secretary McNAMARA. No, I do not believe so.

Representative GRIFFITHS. Well, if I were making 12 items and on 1 of them, I lost, and on 11, I made a profit, I would be in a considerably better position than one small contractor who made 1 item, would I not?

Secretary McNAMARA. Well, we have a policy in the Department of avoiding what we call "buying in." This is a practice that any private or public buyer must guard against. A company may choose or try to buy into a business by proposing a price less than an efficient producer could produce the item for and obtain a reasonable profit, and we have a written policy that states we will seek to avoid placing business on that basis, and therefore I do not believe that a small contractor is penalized in any way versus a large contractor by the fixed-price or price incentive contracts which we are sponsoring.

Representative GRIFFITHS. I draw your attention to this little book which we have prepared,<sup>1</sup> which shows time after time that the prime contractors estimate a price way beyond that contract price that they had with their subs. Yet your purchasers were unable to figure it out.

Secretary McNAMARA. I am sorry, I could not hear what you were saying.

Representative GRIFFITHS. I draw your attention to this little book prepared by our staff, which shows that on one occasion after another, the prime contractors had fixed-price contracts, they had already agreed upon price with the subs. They then, in asking your contracting officer for a price, overestimated the price they were going to pay subs, and your contracting officers were not competent to figure that out.

<sup>1</sup> See staff report, 1964, pp. 72-150.

Secretary McNAMARA. Our contracting officers were what?

Representative GRIFFITHS. Not competent to figure out if the prices were right or wrong.

Secretary McNAMARA. Oh, surely, I think we all make mistakes, and we place literally hundreds of thousands of contracts a year, and I have no question in my mind but what upon occasion we establish a price with a prime contractor which has as a component a cost, an estimated cost, for the procurement of an item from a subcontractor which estimated cost proves from hindsight to have been in error, either high or low. No question about this happening. It happens in private business and it happens in our business. But, on balance, there is no doubt in my mind whatever but what incentive contracts and fixed-price contracts are in the Government interest.

Representative GRIFFITHS. I thank you for your answer, and I won't take any more time. But I would like to reiterate that in my judgment, one of the things for which we should look is whether or not primes, in their purchasing policies, are not having a rather severe impact upon the economy, and if they are not willfully moving sub-contracts from one area to another without any reason to assume that they are getting a lower price.

Secretary McNAMARA. We will be quite happy to look at that, and I would be grateful if you would send to my personal attention the case you mentioned.

Representative GRIFFITHS. I will. This is for the third time. This time I hope it gets to you.

Secretary McNAMARA. If you send it to my personal attention, it will.

#### OFFICE OF ECONOMIC ADJUSTMENT—PURPOSE, PERSONNEL, PLANS

Senator JAVITS. Mr. Chairman, could we ask the Secretary to submit a statement on the Division for Economic Adjustments of the Department of Defense as to its personnel, what it is, and what plans he has for us?

Secretary McNAMARA. Surely; I would be delighted to.

(Subsequently the Secretary submitted the following information:)

The Office of Economic Adjustment, under the Assistant Secretary of Defense (Installations and Logistics), directs a continuing program designed to help mitigate the effects of Defense program changes on communities, industries, and individuals.

It undertakes to lend assistance when serious adverse impacts occur as a result of base closures, reorganizations of Defense operations which result in reductions in force, or changes in procurement programs.

Its role essentially is to provide advice, assistance, and guidance to aid a community in its effort to develop alternative, non-Defense economic activities to overcome the loss of Defense contracts or installations. It confers with community leaders, to define the impacts; to assist in assessing the goal, the assets, and the opportunities for economic growth; and to stimulate the organization of a concerted community plan and action program. It is able to bring the successful experiences of other similarly affected communities to bear on the solution of local problems.

It is a small organization consisting of the Director, two professional staff assistants, and two secretaries. However, it operates by enlisting the advice and assistance of all pertinent elements within the DOD and throughout the Federal Government to help the community to overcome obstacles to its recovery.

Examples are: help in obtaining surplus DOD real or personal property to further the community plan; help in finding the right Federal programs and coordinating the efforts of responsible Federal, State, and local officials in

making use of all applicable resources; organization of task forces of Federal and State experts to assist in the initial development and subsequent implementation of community plans; organization of economic workshops; discussion of community problems with the Select Advisory Committee for Defense (a committee chaired by the Department of Commerce and including, besides DOD, Labor, Agriculture, DHEW, HHFA, Interior, SBA, and GSA), etc.

It develops and recommends changes in DOD policies and practices which will facilitate economic adjustment without hindering the DOD mission.

It makes analyses of the economic structure of communities where DOD procurement or operations have an important impact, and assesses the potential effects of impending program changes.

It uses every opportunity to educate communities and industries to the importance of diversification.

Basically, the Office acts as a catalytic agent; the success of any community recovery from a Defense impact depends on the ingenuity, effort and determination of the community itself.

The Director serves with such committees as the President's Committee on the Economic Impact of Defense and Disarmament, the Defense Industry Advisory Council, and the Interagency Policy Committee of the ARA.

Insofar as Rome, N.Y., is concerned, the Office has only recently begun its work with the community. The assessment of the community leadership was that a positive approach to recovery programs was not possible until March 19, 1964, in view of the feelings of the Rome-Utica area about the December 12, 1963, decision. Since that time, the Office has done the following:

1. Appeared on March 19, 1964, before 100 community leaders in Rome to explain the adjustment program. On March 20, 1964, talked to seven select community groups about what could be done to stimulate economic growth.

2. Requested the Air Force to assure that firms in the area qualified to perform repair work on equipment managed by ROAMA are given every opportunity to compete for repair business.

3. Arranged for the Director of Economic Utilization to discuss the potentials for defense procurement with Rome-Utica sources.

4. Began preliminary planning for a DOD procurement workshop for the Rome-Utica area, subject to request for such assistance from the communities.

5. Arranged with HHFA to send a responsible official to Rome to discuss the creation of a public transportation system, utilizing Federal funds available for a demonstration project. A preliminary conference was held in Rome April 7, 1964.

6. Upon request of the mayor, met with a select group on April 13 to present in further detail the facts which made it necessary to transfer the ROAMA mission. On the same day Air Force personnel officials assisted by a representative of the Office of Economic Adjustment delineated and reaffirmed the DOD reemployment commitments to the ROAMA employees and announced the phase-out schedule. These actions were under the auspices of the Office of Economic Adjustment as a means of helping the leadership to enlist support for the recovery program.

7. Began analyses of Rome's community plans for assessment and evaluation.

8. Began exploration of ways and means to capitalize on the historical heritage of the area (Fort Stanwix, Oriskany Canal).

9. Requested the Select Advisory Committee to examine all present and projected programs of their agencies for application to the Rome-Utica area.

10. Began development of complete plan of action for discussion with local leadership.

The leadership of the community is enthusiastic about this approach but is under no illusion that overnight successes are guaranteed. The Office of Economic Adjustment has cautioned that the program is for the long pull and has committed itself to help the community help itself until recovery is complete.

Senator JAVITS. Thank you.

#### AGENCY TO HANDLE ECONOMIC IMPACT PROBLEMS

Senator MILLER. Mr. Chairman, before leaving this point, I think that something ought to be brought out. A lot of what Congressman Curtis had to say, and a lot of what Senator Javits had to say is per-

minent, and I expect that we are going to have more serious problems than we have already had with respect to the closing of some of these installations, but what bothers me is why you—and I say that, realizing that you are the last person in the world to shun responsibility—but why should the Secretary of Defense, once he has had a military decision made that there is no requirement for a base, have to be subjected to all of these other considerations?

It seems to me that this is something that ought to go into the hands of, well, as of now, perhaps, the President himself, but perhaps we need some other kind of an agency or a board to make a decision regarding the final closing, taking into account the Secretary of Defense's own recommendation that it be closed because there is no military requirement, but I find it a little difficult to understand why the Secretary of Defense, once the military services or a military service has advised you that there is no longer any military requirement for an installation, why he should have to go into all of these other considerations, community effects, and the like. Granted that they should be gone into, but why should the Secretary of Defense have to do this? Why should this not be done at some other level, or by some group of individuals, rather than yourself?

I would like to get your comments on that?

Secretary McNAMARA. Well, I think that one answer is that if we refuse the responsibility for developing of Government plan in relation to particular action, we are almost certainly going to defer the action, and for that reason, I am quite willing to assume the responsibility in the Department of Defense to plan a move, a closing of an installation in such a way as to take account of the effect on the community, mobilize the other resources of the Government to minimize the adverse effects of such an action, and direct the entire program, because I believe by concentrating that responsibility in the Department of Defense, we will be able to act more promptly in achieving the reduction in cost which is our ultimate goal.

Senator MILLER. Well, Mr. Secretary, I know you are quite willing to assume that responsibility, but put yourself in the place of the community leaders, let us say of Rome, who come to the Defense Department for consideration, realizing that the decision has already been made by one of the military services that there is no longer a military requirement for this installation. Automatically, they are going to wonder whether or not they are going to have a truly fair hearing in the Defense Department.

It seems to me that while I know you are doing the best you can under the present setup, that some consideration ought to be given to establishing some other agency or level for making a final decision on this point. Granted that it may be a decision that will be delayed, still, there are other factors which are involved here, which as time goes on, could be even more serious than what we have already experienced in the case of some of the shipyards and some of the other installations.

I do not know whether there have been any studies on this point or not, but I would like to suggest to you that I for one think it is unfortunate that the Secretary of Defense has to get into all of these other considerations, which I have a feeling belong at a higher level.

## CABINET COMMITTEE ON PRODUCTION SHIFTS

Secretary McNAMARA. The President, as you know, has established a board of Cabinet officers to examine the effect on our economy of shifts in production, whether it be caused by a Defense Department decision or, for that matter, by a shift in the private sector of our economy, and this group is presently at work, and I hope will be able to develop certain policies and guidelines which all of us can follow in the detailed decisions relating to a particular community.

Senator MILLER. Are there any memorandums or publications on this particular—

Secretary McNAMARA. Yes, there is the order establishing it, and I will be quite happy to see that you receive a copy of it.

Senator MILLER. I appreciate it. I wonder if we might have it placed in the record, too, Mr. Chairman.

Representative GRIFFITHS (presiding). Is there objection?

Then without objection, it will be placed in the record.

(The press release follows:)

OFFICE OF THE WHITE HOUSE PRESS SECRETARY,  
THE WHITE HOUSE,  
December 21, 1963.

The President today announced the formation of a high-level Government committee to coordinate the work of Federal agencies in appraising the economic impacts of disarmament and changes in defense spending. It will be chaired by a member of the Council of Economic Advisers and will replace an informal group that began work on this problem last spring. The President noted that changes in the composition or total level of defense spending can significantly affect jobs and incomes in particular communities or in the Nation as a whole.

He stated: "I am confident that our economy can adjust to changes in defense spending or arms reduction that may occur. Our experiences after World War II and the Korean conflict prove that. But the Nation as a whole and the communities with heavy concentrations of defense industry deserve assurance that any changes will be made with as little dislocation as possible. This Committee's work will contribute to the process of smooth and speedy changeover when such changes occur."

The President asked to be kept personally informed of the results of the Committee's work. His memorandum establishing the Committee is attached.

Memorandum for:

Hon. Robert S. McNamara, Secretary of Defense.

Hon. Luther H. Hodges, Secretary of Commerce.

Hon. W. Willard Wirtz, Secretary of Labor.

Hon. Glenn T. Seaborg, Chairman, Atomic Energy Commission.

Hon. James E. Webb, Administrator, National Aeronautics and Space Administration.

Hon. William C. Foster, Director, U.S. Arms Control and Disarmament Agency.

Hon. Edward McDermott, Director, Office of Emergency Planning.

Hon. Kermit Gordon, Director, Bureau of the Budget.

Hon. Walter W. Heller, Chairman, Council of Economic Advisers.

Subject: Formation of a Committee on the Economic Impact of Defense and Disarmament.

As you are aware, on July 10, Chairman Heller organized an informal committee to review and coordinate the work of Federal agencies relating to the economic impact of defense and disarmament. Based on the preliminary work of this informal committee, it seems desirable that it be given a more formal and permanent status.

I am therefore requesting you to designate a senior official in your department or agency to serve on this Committee on a continuing basis. A member of the Council of Economic Advisers will serve as Chairman of this Committee.

The Committee will be responsible for the review and coordination of activities in the various departments and agencies designed to improve our understanding

of the economic impact of defense expenditures and of changes either in the composition or in the total level of such expenditures.

Federal outlays for defense are of such magnitude that they inevitably have major economic significance. In certain regions of the Nation and in certain communities they provide a significant share of total employment and income. It is therefore important that we improve our knowledge of the economic impacts of such spending, so that appropriate actions can be taken—in cooperation with State and local governments, private industry, and labor—to minimize potential disturbances which may arise from changes in the level and pattern of defense outlays.

I know that your agencies have already initiated a number of activities which will improve our ability to assess the economic consequences of the defense program. I do not expect this Committee to undertake studies of its own, but rather to evaluate and to coordinate these existing efforts, and, if it seems desirable, to recommend additional studies, subject, of course, to appropriate review and authorization through established channels.

The Committee may wish to add representatives from other Federal agencies, and it is hereby authorized to do so.

As work in this area produces results of interest to the Congress and the general public, they should be made available in appropriate form.

This is an important subject, and I wish to be kept personally informed as your work progresses.

LYNDON B. JOHNSON.

Senator JAVITS. Madam Chairman, may I state, before I leave to answer a quorum call, I think you have got to do it, I think it is necessary. You are the employer. I think, in the best interests, you must do it.

Representative GRIFFITHS. Proceed.

#### STUDY OF DEFENSE-OPERATED INDUSTRIAL COMPLEX

Secretary McNAMARA. We were talking about the actions taken to eliminate surplus installations or reduce excessive installations. Currently, we are studying intensively the Defense-operated industrial complex. This includes Army arsenals, naval ordnance plants, naval shipyards, aircraft maintenance and overhaul facilities, and so forth. These are major activities employing tens of thousands of military and civilian personnel.

#### INSTALLATIONS SURVEY BOARD

To insure continuing top management attention to this effort, an Installations Survey Board, chaired by Assistant Secretary Morris, is meeting regularly, and I hope to be able to announce further cost savings in this area in the months ahead.

#### ONE HUNDRED MILLION DOLLAR ANNUAL "OPERATING EXPENSE SAVINGS" GOAL

A new category of cost reduction effort, "Department operating expense savings" has recently been established with an annual savings goal of \$100 million. This project encompasses the simplification and standardization of our mass paperwork procedures, and the sound utilization of computers to mechanize those procedures.

#### PURCHASE OF ADP EQUIPMENT

For example, this year, out of current savings, we are purchasing \$200 million worth of automatic data processing equipment for which

we have been paying annual rentals in excess of \$60 million. After the purchase cost has been amortized over the next 3 years, these rentals will accrue as annual savings during the remaining life of the equipment.

#### CONSOLIDATED COMMON SUPPORT

In the area of consolidating common support functions, continued progress has been made during the past year. General McNamara, who is head of the Defense Supply Agency, will give you a progress report on that Agency and discuss the latest development in Department of Defense and General Services Administration. The Defense Supply Agency's performance has far exceeded our original estimates of its potential for improved service at lower costs.

#### PROJECT 60—CONTRACT ADMINISTRATION

Another noteworthy consolidation effort, which is known as Project 60, is designed to achieve uniform contract administration policies and procedures for such things as checking production progress, inspection and acceptance of materiel, evaluation of contractor's ability to perform under Government contracts, reviewing and paying contractor's bills, on-the-spot analysis of cost proposals, and so forth, and a pilot test to determine how to consolidate contract administration as a common support service to both the Department of Defense and the National Aeronautics and Space Administration will begin next week in a five-State area, centered in Philadelphia.

Today there are over 150 of such field offices employing about 20,000 people. Through the establishment of consolidated field offices, we anticipate to save about 1,800 persons, and annual savings of approximately \$1 million.

In summary, Madam Chairman, we have just passed the halfway mark in the 5-year cost reduction effort which was launched in fiscal year 1962. Our progress to date has been rapid and we have already initiated actions which will achieve still greater savings in the future.

#### COST REDUCTION BY DEFENSE CONTRACTORS

One of the most promising is the intensification of cost reduction efforts by defense contractors who spend more than 55 cents out of each defense dollar. Last December, President Johnson and I wrote personally to the 7,500 largest defense contractors, calling on each of them to accelerate, expand, and intensify their efforts to cut the costs of defense procurement.<sup>1</sup> The response has been most gratifying.

Although I cannot forecast the ultimate level of additional savings which will result, I can assure you that it will be substantial and will assist us in exceeding the present goal of \$4 billion per year.

Thank you, again, Madam Chairman, for the opportunity to appear before the committee.

#### COMMERCIAL BID PRACTICE

Representative GRIFFITHS. Thank you very much, Mr. Secretary, and I would like to ask you some questions.

<sup>1</sup> See staff report, 1964, p. 54.

I would like to ask you if it is customary in commercial practices for a concern to deal on a competitive-bid basis with subs.

Secretary McNAMARA. The short answer is "Yes." You say the competitive-bid basis, the bid is not normally a formally advertised bid, but it is a competitive procurement. As a matter of fact, I think that is the best commercial practice.

Representative GRIFFITHS. Do they not also have another means of checking? Don't commercial purchasers have a pretty good idea of what the cost is going to be, the price is going to be, before they request?

Secretary McNAMARA. Some do. Most do not. It is quite common in the auto industry, for example, but it is not as common in many other industries.

Representative GRIFFITHS. On an item that has been purchased for many years, would they not have an idea?

Secretary McNAMARA. Oh, yes.

#### UNIT PRICE INFORMATION

Representative GRIFFITHS. What efforts are made in the Defense Department to make sure that you have a history of the prices that have been paid for items? Even our subcontracted items? Do we have any such history or not?

Secretary McNAMARA. No, the Defense Department itself does not maintain price records on subcontracted items, but we expect our contractors, our prime contractors, to do so. The Department, in the past, has not paid the attention that I believe it should have to competitive buying of prime items. It is to that that we have devoted our attention the past 2 to 3 years, and you have seen the results as I presented them here this morning. We have increased the percentage of our prime contracts placed under competitive procurement practices.

Now, we are devoting the same effort to directing our primes to shift from noncompetitive to competitive subcontracting, and we are beginning to make considerable progress there. As part of that, they will, of course, have to maintain detailed records of prices of subcontracted items.

Representative GRIFFITHS. Why don't you maintain detailed records of such items?

Secretary McNAMARA. Well, it would be an absolutely impossible recordkeeping task. There are literally millions and millions and millions of such items procured. There is no reason at all for the Defense Department to maintain the records, but there is need for the prime contractors to be prepared to place subcontracted items under competitive conditions.

Representative GRIFFITHS. Would it not be of great value to your purchaser to know the prices, the subcontracting prices?

Secretary McNAMARA. But the prime contractor is in the best position to have maintained those records.

#### ITEM INVENTORIES

Representative GRIFFITHS. Don't you have records that show inventories of items, parts?



Secretary McNAMARA. Parts possessed by the Government, yes.

Representative GRIFFITHS. Why don't you have the price punched on those cards that you paid for those particular items?

Secretary McNAMARA. Well, we have prices that we pay for—

Representative GRIFFITHS. Sets of spare parts?

Secretary McNAMARA. Yes, we have prices paid for our parts.

Representative GRIFFITHS. Why don't you have them priced separately?

Secretary McNAMARA. Well, we have price records of all of our spare parts.

Representative GRIFFITHS. Separately?

Secretary McNAMARA. Oh, yes. But these are parts which we procure ourselves. When we are talking about subcontractors I was using the phrase to apply to parts procured by a prime contractor, and not directly by the Government.

Representative GRIFFITHS. Well, then, if you procure spare parts for a jet plane, and you procure them in a lot, you purchase them from a prime contractor, or you purchase them from many contractors?

Secretary McNAMARA. Well, we would call that a prime contract or purchase in the sense that we buy directly from the company. I use the word "subcontractor" to mean that the part is purchased by another private company and then sold to us.

#### COST RECORD OF PARTS

Representative GRIFFITHS. But do you have records of how much you paid each time for the parts?

Secretary McNAMARA. Yes.

Representative GRIFFITHS. But not the compilation of parts within that particular item. Is that correct?

Secretary McNAMARA. Yes, that is correct. We have records of the price we pay for what we buy.

Representative GRIFFITHS. In those instances where you have both sets of spare parts for a truck, you buy them through the automotive companies, do you not?

Secretary McNAMARA. We may or may not. Before you were able to come in, I commented upon what we call our "breakout" program, which is a program designed to shift procurement from a prime contractor buying through a subcontractor to procurement by the Government directly of the item involved. By this means, we have managed to substantially reduce the price of the item, and when we buy in that way, we have records of the prices we pay.

Representative GRIFFITHS. I think it would be the greatest saving ever instituted if you bought some of these parts and if you really maintained the prices on the parts, and if your contracting officers actually knew the prices paid between one department and another, and paid through the years for the item.

Secretary McNAMARA. Oh, they do. Where we buy it, that information is available to them.

Representative GRIFFITHS. Thank you very much. Do you have some questions, Congressman Curtis?

Representative CURTIS. Mr. Secretary, I want to commend your overall statement and report of progress in this area. I want to pick up

a few particulars that are on my mind, and then get to a couple of generals.

Secretary McNAMARA. Surely.

#### PROJECT 60 SAVINGS

Representative CURTIS. I have heard about this Project 60, and it strikes me as being a very important movement forward in this area. You regard it as of some significance?

Secretary McNAMARA. Oh, I do, indeed. I think that not only are we going to have a savings of roughly \$19 million a year to the Department, but I believe that our contractors will find it much easier to do business with the Government as a result.

#### TRAINING OF CONTRACT EXPEDITERS

Representative CURTIS. Let me ask this: Is part of this the idea of getting these officers and other personnel—because some of them, perhaps most of them are civilians, but some would be military officers, would they not?

Secretary McNAMARA. Yes.

Representative CURTIS (continuing). Of training them? There are a few signs that this has developed, and it exists in the civilian sector in expeditors, or whatever we call this process of following a contract through. Do you contemplate a more formalized training program for these people?

Secretary McNAMARA. Yes. The services, plus Mr. Morris in the last 2 years, have initiated such programs, and we can do far more than we have, in the future.

Representative CURTIS. It almost would seem, too, that you could gain esprit de corps by upgrading this kind of difficult work. It is somewhat of an art, acting between the Government and the contractor. You are checking production, progress, contract policies, inspections of material, et cetera. Well, I will follow that with some interest.

#### INCREASING THE TAX BASE—FEDERAL AND LOCAL

Now, I would like to point up something you did not mention—and I can well understand why you would not. In closing out these installations I am impressed with the amounts of real estate released, which is a plus factor in returning an operation to the tax base.

Secretary McNAMARA. Yes.

Representative CURTIS. This is building up our tax base, not just the Federal tax base on income, but probably even more important, the local tax base, which is founded upon real estate taxation.

Secretary McNAMARA. It is very, very important in that respect.

Representative CURTIS. I hope we can continue this movement with emphasis on this Office of Economic Adjustment.

#### AFFIRMATIVE ASPECTS OF BASE CLOSINGS

In my colloquy after Senator Javits' inquiries, I want to be sure that I was giving it the right balance. I was not in disagreement with Senator Javits' statements and approach, which I feel is very important, too. But I was disturbed because so much publicity has been given to the objections that have been registered, not only by Congressmen

and Senators, but by people around the country. This is understandable when a military installation is closed down, but I felt that we were losing sight of the affirmative aspects of it. Also, I was afraid that the press and the general public were getting the impression that the Congress, as a whole, was not in accord with what you are doing. It is my judgment that we are in accord. I have spoken out, and others have spoken out, but most of the Congressmen and Senators have been fairly silent. Those who have spoken out, of course, are speaking in regard to specific installations that are being closed down, and I think that it needed that balance. That is why I spoke up today, but I hope that this will continue along the lines of beefing up these adjustment aspects of the program.

#### UNFAIR CRITICISM OF SECRETARY

My general comments are these: There has been some criticism of this policy that you have been pursuing as Secretary of Defense. Strangely, one of the criticisms has been along the line that you were trying to establish an empire in the Department of Defense. If you were building an empire, you would not be moving from negotiated bids to competitive bids, because, actually, on the competitive bids you lose the control of who is going to get the bid. Certainly, if a person were building up an empire, negotiated bids would be the way to proceed.

#### SHIFT FROM DSA TO GSA

Secondly, and this is something we are going to get into with the other witnesses. I am very pleased with this shift from DSA, the Defense Supply Agency, to the GSA. And I hope the testimony will bring out that this shift is continuing. I know your relationships in this kind of shift are very good, but again, the Defense Department, if it were building an empire, would not be cooperating in shifting over to the General Services Administration these big items of procurement for general use.

#### GSA BUYS \$1 BILLION ANNUALLY FOR DEFENSE

Secretary McNAMARA. You are quite right. We have shifted from buying about \$550 million per year from General Services to utilizing them to buy about a billion dollars per year of our equipment. I must say they are doing an excellent job for us, and I would be delighted to have them do more as they and we can negotiate it.

#### GSA'S DEFENSE ROLE IN MOBILIZATION

Representative CURTIS. I don't know why this should not be on the record. I was talking with Mr. Boutin the other day, and he supplied an ingredient that I felt had been missing in this relationship, which was that in the event of mobilization, in this area, GSA should immediately be under the dominance of the Defense Department. I think you have a priority with them under this setup now, but certainly in the event of mobilization, just as we shift the Coast Guard from the Treasury Department to Defense, it would seem to me that this might be an ingredient that would help in this further movement

and reliance whenever we can on the civilian sector of the governmental structures.

Secretary McNAMARA. I have absolutely no doubt in my mind but what both today and under mobilization conditions they would serve us well.

#### CLOSING OF INSTALLATIONS ANTIEMPIRE BUILDING

Representative CURTIS. Now, the final point is—and this has been emphasized—if there were this kind of empire building you certainly would not be moving as you are in closing out of installations. Mr. Secretary, I feel that you are doing a very fine job under very difficult circumstances in this area. The progress report you have given us, I think, is a good one. We are going to continue to follow it.

From the other witnesses, I will bring out some specifications that I am concerned about. The main thing that we will get from General McNamara is a discussion of the further consolidation of interservice activities.

#### APPLICATION OF OUTSIDE SUGGESTIONS

Secretary McNAMARA. Surely, the other witnesses will be very happy to comment on that. I very much appreciate your compliments. I should emphasize what I referred to earlier, that many of these ideas that we have applied have come from records of this committee, from the reports of the Hoover Commission, and from the General Accounting Office reports, as well as the investigations of other congressional committees. We made a very thorough analysis of all of the suggestions by these various bodies over a period of years. The Hoover Commission reports were particularly helpful to us. I don't mean to say we agreed with everything that everyone suggested, but we did, in a sense, steal from these reports these ideas, and have simply been putting them into practice.

Representative CURTIS. You are very kind.

Secretary McNAMARA. We are very grateful, particularly to this committee, for its extensive analysis of the Defense Department's operations, and its suggestions for improving them.

Representative CURTIS. Thank you, sir.

Chairman DOUGLAS. We want to thank you very much, Mr. Secretary. I know you have many things to do and unless there is something further you wish to say, you may be excused.

Secretary McNAMARA. No, sir; there is nothing further I wish to say.

Chairman DOUGLAS. I want to commend you in general. You have been very forthright in what you are doing, very efficient, and I think the discussion has been helpful.

Good luck.

Secretary McNAMARA. Thank you.

Representative WIDNALL. May I ask a question?

Chairman DOUGLAS. Oh, yes, Congressman Widnall. We have kept him here an hour and a half, we have got five more witnesses before noon, but I know that you have not had a chance.

#### POOLING OF ENGINEERS

Representative WIDNALL. I just want to ask one question.

Mr. Secretary, I think you have made a very illuminating statement. I would like to ask a question about the pool of engineers

that I hear about every once in a while. Do you think that there is any truth to the allegations that are made that a number of the big companies have sort of confiscated the top engineering talent to the point where they pool the engineers, and those costs are making much higher costs to Government procurement? I know smaller companies have spoken to me about their inability to obtain engineers, when many of the large companies that are involved in Government procurement are not anywhere near obtaining utilization of the ones they have on the payroll, and yet they are all cost factors, when it comes to Government procurement.

Secretary McNAMARA. You may be referring to a rather recent Wall Street Journal article which stated that one of the effects of the shift in the Defense Department's procurement practices from cost-plus contracts to incentive or fixed-price contracts was the reduction in the number of engineers on the payrolls of defense contractors. The Wall Street Journal went on to say that when the contractors had been selling to the Government under the terms of cost-plus contracts, they had maintained men on their payrolls in excess of those required for the immediate contract, with the hope that a future contract would be made possible by the existence of those engineers.

I think it was more illustrative of the shift in attitude of management, whether it is functioning under fixed-price or price-incentive contracts, as contrasted to cost-plus-fixed-fee contracts. I really don't believe that there has been any substantial withdrawal of engineers from the market by defense contractors, particularly not by large defense contractors. I do believe, however, that there was very little incentive for the Defense Department and very little incentive for the defense contractor to minimize costs when we were operating under such a high percentage of cost-plus-fixed-fee contracts.

Representative WIDNALL. Well, the allegation was also made that in connection with this, they were bidding against each other for the talent, and running up the salaries of the people in the pool.

Secretary McNAMARA. I think there was some merit to that. I don't believe it was a conscious practice. I think it was simply a function of demand and supply, partially as a result of our shift in contracting practice, partially as a result of the shift in the type of things we are buying. There is now an easing of the market for engineers. You may have noticed an article within the last 2 days in the New York Times pointing this out.

Representative WIDNALL. That's all.

Thank you very much.

Chairman DOUGLAS. Thank you very much, Mr. Secretary.

Secretary McNAMARA. Thank you, sir.

Chairman DOUGLAS. We expect Senator Beall to be here to testify shortly, but until he does appear, I wonder if General Colglazier, Admiral Schoech, and General Gerrity, would now come forward.

General Colglazier.

**STATEMENT OF LT. GEN. R. W. COLGLAZIER, JR., DEPUTY CHIEF  
OF STAFF FOR LOGISTICS, DEPARTMENT OF THE ARMY**

General COLGLAZIER. Yes, sir; Mr. Chairman. I have a prepared statement, Mr. Chairman, which takes 17 minutes. Would you like me to read it?

Chairman DOUGLAS. We will consider that as part of the record. Then would you be willing to speak off the cuff, summarizing?

General COLGLAZIER. All right, sir.

(The statement of Lt. Gen. R. W. Colglazier, Jr., follows:)

STATEMENT OF GEN. R. W. COLGLAZIER, JR., DEPUTY CHIEF OF STAFF FOR LOGISTICS,  
DEPARTMENT OF THE ARMY

Mr. Chairman and members of the committee, I will present the Army's cost reduction program (chart No. 1) with particular emphasis on our efforts to improve requirements calculations in order to meet the objective of "buying only what we need."

The Army has implemented the Department of Defense cost reduction program as a matter of highest priority. Top level emphasis has been given to the program by the Secretary of the Army, Assistant Secretary for Installations and Logistics, the Army Chief of Staff, Headquarters Department of the Army Staff and major field commanders.

A comprehensive orientation program (chart No. 2) for all Army personnel both military and civilian has also been conducted. Our underlying philosophy has been simply that if the maximum number of personnel become sympathetic with the need, aware of the opportunities and familiar with the methodology, then cost reduction will indeed become everybody's business.

As a permanent long-range means of indoctrination, all Army-service schools have included cost reduction in their curriculum.

Special emphasis is placed on this subject at the Army Logistics Management Center—which helps to train our logisticians and at the Army Management Engineering Training Agency where the techniques of management improvement are taught.

At this time I would like to mention our accomplishments to date.

#### ACCOMPLISHMENTS

The Army exceeded its fiscal year 1963 goal by 50 percent, reporting validated savings of \$678 million against a goal of \$459 million (chart No. 3). In the area of buying only what we need, the accomplishment was \$338 million and the goal \$254 million.

Reports for the first half of fiscal year 1964 (chart No. 4) show that we have achieved savings in the amount of \$441 million or 54 percent of our annual goal of \$818 million. We are encouraged with this progress and are confident of meeting our annual goal.

#### INITIAL FOCUS OF EFFORT

When the cost reduction program was first established, the Chief of Staff issued instructions which caused the DA headquarters staff to concentrate initially on measures aimed at refining our requirements.

#### CHART 1

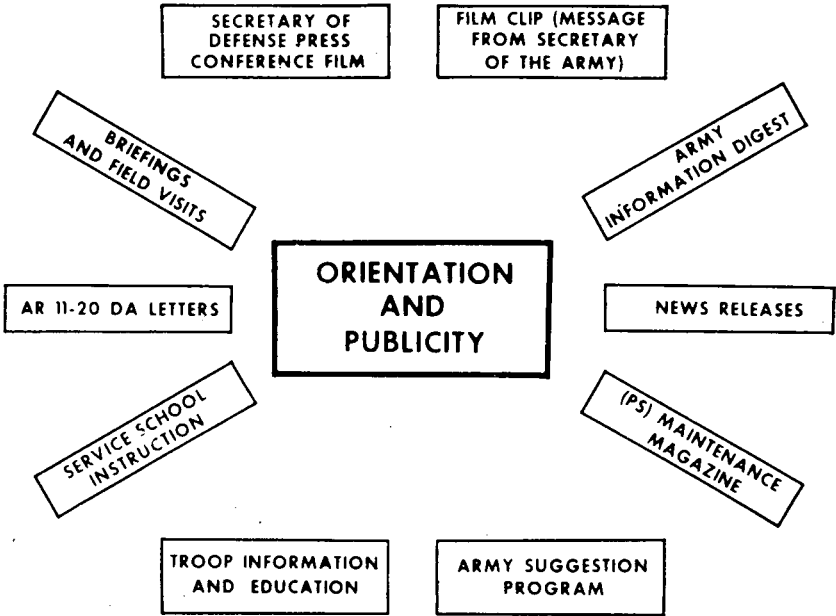
## THE

DEPARTMENT OF THE ARMY



# COST REDUCTION PROGRAM

CHART 2



This is the "bellwether area" of the Army cost reduction program; and since a large portion of the Army dollar is spent in the development and procurement of materiel, it is vital that we buy only what we really need to achieve balanced readiness.

To this end the Chief of Staff enunciated the principles set forth in this chart (chart No. 5).

CHART 3

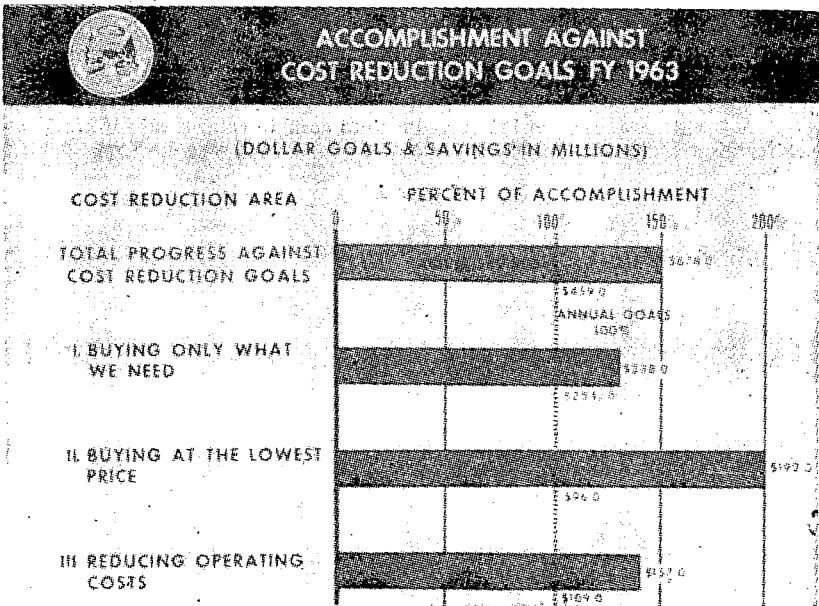
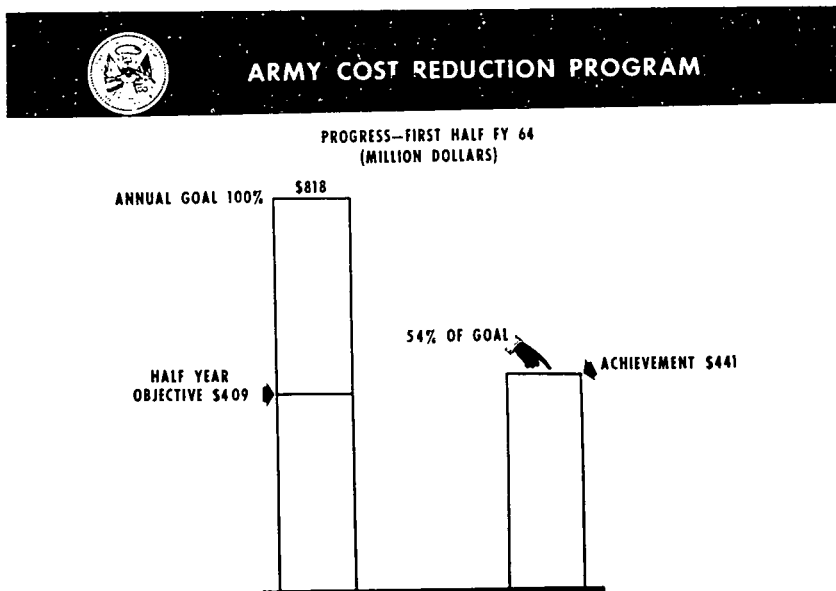


CHART 4



He established a specific program to review materiel development and procurement procedures to assure that these principles were carried out on a continuing basis.

The Materiel Requirements Review Committee, composed of the Deputies or Assistant Chiefs for Logistics, Force Development, and Research and Development, was designated as the agency to develop an outline plan for this program, provide guidance, review reports of progress, and direct input into the cost reduction program.

A complete review of materiel development, procurement, and allocation procedures in the light of these principles was directed.

This included a reappraisal of all research and development projects and tasks, the PEMA 5-year procurement list, authorization documents, and the Army materiel plan—including operational projects, replacement factors, and maintenance float requirements.

Significant actions completed to date as the result of this review are shown on the next few charts.

The tables of organization and equipment of all ROAD Divisions were reviewed in the light of the Chief of Staff principles to insure that unit equipment authorizations included only those items that were absolutely essential, that authorizations for these items were kept to an absolute minimum, and that unnecessary frills and goldplating were avoided. (Chart No. 6.)

As a result of this review, requirements for a number of major items in the infantry, armored, mechanized, and airborne divisions were significantly reduced prior to final approval of the ROAD tables of organization.

Total reductions amounted to about \$136.6 million, based on a 22-division force.

Items reduced included radio sets, tanks, trucks, armored personnel carriers, airplanes, radar surveillance systems, artillery pieces, and other equipment.

I wish to emphasize that these reductions were not made at a sacrifice of the Army's operational or combat capability.

Another of the actions taken under the direction of the Chief of Staff was the review of the Army materiel plan. (Chart No. 7.)

Commodity teams were formed to study all aspects of replacement and maintenance float factors and their application in the computation of requirements.



CHART 5

CHIEF OF STAFF PRINCIPLES FOR  
DEVELOPMENT AND PROCUREMENT OF MATERIEL



- ☆ The bulk of available funds will be spent on items providing real strides forward in terms of combat effectiveness with emphasis on mobility, firepower and communications. No substantial sums of money will be spent for relatively small increases in terms of combat effectiveness.
- ☆ Only that equipment required for the performance of our missions and only in absolutely necessary amounts will be included in allowance authorizations.
- ☆ Unnecessary technical features, over refinement and excessive durability must be eliminated. Only those features and characteristics contributing directly to operational capabilities should survive the developmental process. Incorporation of "nice to have" but non-essential features must be precluded.
- ☆ The costs of new items and modifications to existing items must be carefully weighed against the expected improvements in operational capability. Marginal improvements in the name of modernization must be eliminated.

CHART 6

**REVIEW ROAD DIVISION TOE's**

AIRBORNE



INFANTRY



ARMOR



MECHANIZED

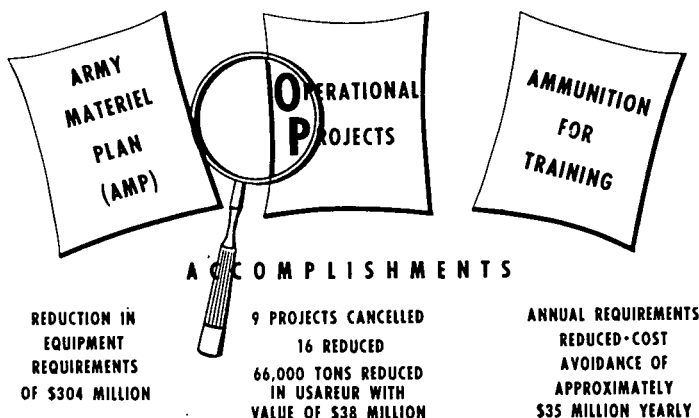


**ACCOMPLISHMENTS:**  
MANY MAJOR END ITEMS REDUCED,  
AMOUNTING TO \$136.6 MILLION

CHART 7



## REVIEW OF REQUIREMENTS



Discrepancies were found in some of the factors on which requirements were computed, therefore requirements calculations were not completely accurate, and sometimes resulted in an overstatement of requirements.

Identified discrepancies have been corrected.

For example, it was discovered that the latest available experience data did not support the factors being used in computing peacetime replacement requirements for aircraft.

By applying revised factors, the Army materiel program will reflect a reduction in forecast peacetime losses in excess of \$176 million over the next 6 fiscal years.

Total savings including those aircraft savings expected to be realized from this initial review will amount to \$304 million.

Because we do not budget or fund for all our requirements in any one fiscal year, the full budgetary impact of these reductions will be spread over several years, and, in accordance with the DOD cost reduction reporting instructions, will be picked up on cost reduction reports in the "buy out year."

Follow-on studies of replacement and maintenance float factors have been directed utilizing the research services of the Army Logistics Management Center at Fort Lee.

As further refinements in the factors are made and reflected in the Army materiel program, additional cost reduction savings will be realized.

Another task group studied requirements generated by operational projects; that is, supplies authorized over and above normal allowances to support Army logistical, operational and contingency plans. (Chart No. 7.)

Major commands were also directed to conduct special reviews with a view to reducing their requirements to a minimum.

To date, 9 projects have been cancelled and 16 reduced.

Requirements for field fortification equipment, firefighting equipment, camouflage material, mobilization reserve aerial delivery equipment, and many other selected items of equipment and ammunition have been reduced or deleted.

Most impressive were the reductions made within U.S. Army, Europe, amounting to approximately \$38 million.

Continental Army Command conducted a comprehensive review of ammunition allowances for training with the objective of reducing the allowances without affecting the combat readiness of the Army. (Chart No. 7.)

Total allowance reductions in the amount of \$35 million annually are expected from this review.

As these savings are reflected in the Army material program, cost reductions will be picked up during the "buy out" years.

Allowances for ammunition considered to be the "bread and butter" of training for combat units were retained and in some cases increased where considered necessary.

Substantial reductions, however, were made in those allowances where combat proficiency would not be adversely affected.

For example, it was determined that familiarization training in the use of the 106-millimeter recoilless rifle was adequate for heavy weapons infantry trainees during their initial training instead of the qualification firing previously prescribed.

This decision resulted in the reduction of from 12 to 2 rounds of 106-millimeter ammunition per trainee.

This will result in an annual cost avoidance of some \$9.9 million.

Combat Developments Command was directed to review all qualitative materiel requirements (QMR's) and small development requirements (SDR's) for essentiality in the light of the Chief of Staff principles.

In turn, the Chief of Research and Development reviewed all R. & D. projects and tasks to assure that they related to approved requirements and objectives.

As a result of these two reviews, 41 projects and tasks with a program value over the next 6 years of \$23.8 million were canceled.

As an example, almost a million dollars had been programed over the next 5 years for the development of a mechanical foxhole digger. (Chart No. 8.) Such an item has long been the dream of every foot soldier.

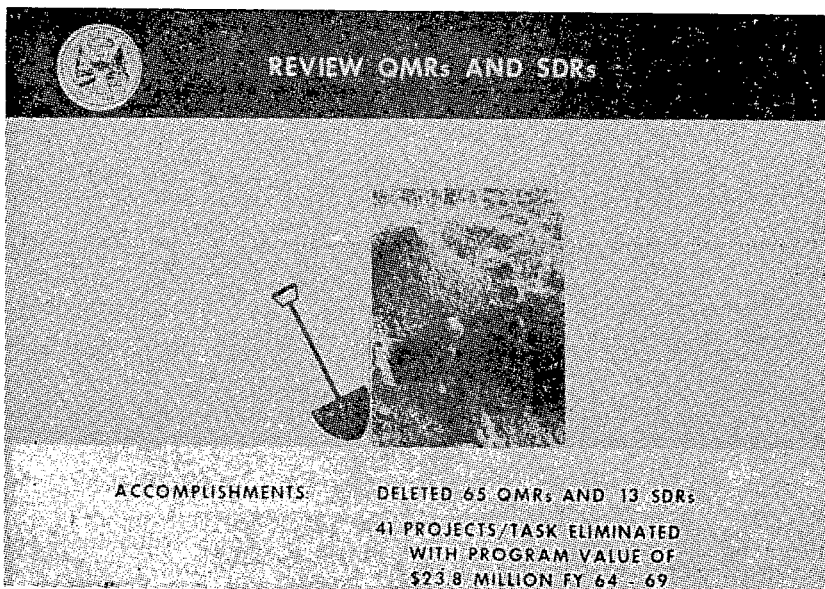
However, after taking a hard look at this project, its cost and marginal advantages in the light of the Chief of Staff guidance, it was determined that R. & D. effort should not be initiated on this project in order that available funds might be used for more urgent projects and tasks.

While the Army has completed the actions I have discussed, we have not been able to reflect all the savings in our cost reduction reports.

I have mentioned the primary reason for this—that is, reductions in PEMA items cannot be reported until the "buy out year."

Another reason is that savings resulting from allowance reductions will not be validated by the Army Audit Agency until they have been reflected in revised materiel requirements and in subsequent reductions in purchases.

CHART 8



Nevertheless, I have reported these actions as I believe you are interested in all of the things the Army is doing to achieve savings—and not just the ones which have been reflected in cost reduction reports.

Now I would like to mention some of the actions which are currently in progress.

In addition to the review of the formal tables of organization for tactical units, the Army staff is now engaged in a review of the equipment allowances for schools, training centers, arsenals, post headquarters, and similar type, non-tactical organizations. (Chart No. 9.)

These have not had the same attention and scrutiny in the past as have the tables of organization and equipment; yet, a lot of money is involved and prospects for savings are good.

A one-time review of all tables of allowances and special letters of authorization by DA and major commands was directed to be completed by June of this year. (Chart No. 9.)

Initial results indicate that the DA review has deleted items from proposed revision to tables of allowances in the amount of \$7.5 million and major commands have eliminated another \$1.9 million.

Reports from a number of major commands are still to be received so that these figures should increase substantially.

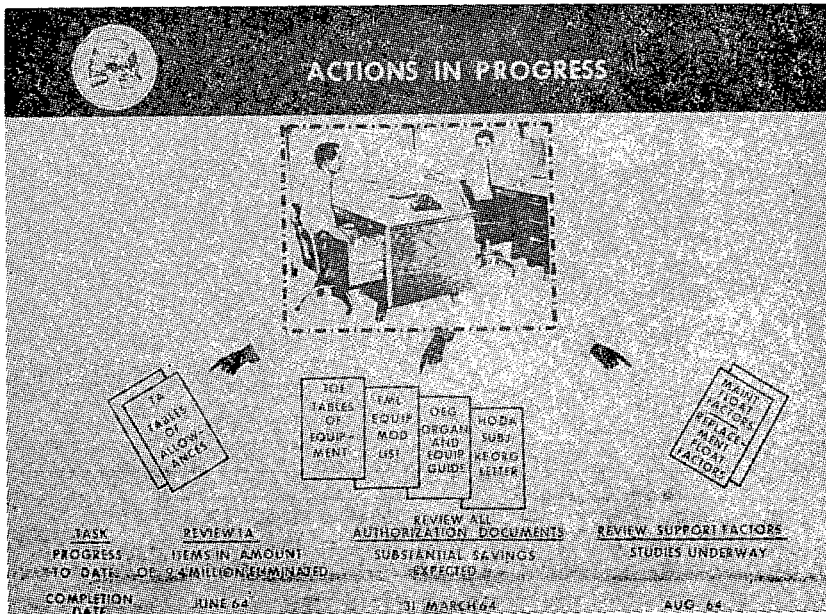
Another important project (chart No. 9) now underway is the review by a special DA committee of all the various authorization documents for personnel and equipment and their use in Army programing.

This review includes both tables of equipment and tables of allowance as well as the numerous other authorization documents also in use in the Army, such as EML's (equipment modification lists), DA reorganization letters, organization and equipment guides, and others.

Reports of the committee's work indicate that substantial savings can be expected.

These will be realized through standardizing the system for computing requirement, streamlining the control of equipment requirements in all Army agencies, centralizing approval authority, and reducing the number of authorization documents. A need for improvement has been pointed up in each of these areas by the study.

CHART 9



I have already mentioned the follow-on studies of the replacement and maintenance float factors shown on this chart. (Chart No. 9.) Target completion date is August 1964.

In addition to the actions shown on these charts, the work of the Materiel Requirements Review Committee is continuing.

The committee is currently reviewing a second round of reports from Army staff agencies and major commands as part of the Chief of Staff's program for review of materiel development and procurement procedures.

This review will be completed this month and substantial input for the cost reduction program is expected to result.

In the interests of reducing procurement and operating costs, Secretary Vance directed that a QMR be developed for a new quarter-ton truck, to replace the M151 which has become complex and expensive due to the addition of marginal refinements. (Chart No. 10.)

Although the cost of the military jeep has been lowered from \$3,547 to less than \$2,500 through competitive procurement and multiyear buying, the Army is investigating the design and production of a less costly vehicle which will meet its needs.

As the Secretary pointed out, the quarter-ton truck is a high-density vehicle, and since so many men are concerned with its operation and maintenance, we would gain significantly if we were able to trim it to "sheer useful functionalism."


A QMR has been developed and approved for a quarter-ton truck to meet the characteristics desired. Target cost is under \$2,000. Action has been taken to solicit proposals from industry on the basis of the QMR.

At the same time, a detailed operational requirement/cost effectiveness study has been directed to provide a basis for a more thorough evaluation of the characteristics which are essential in replacement vehicles for the present military vehicles.

A study is also underway of the total, wheeled, vehicle requirements of the Army in the field. (Chart No. 11.)

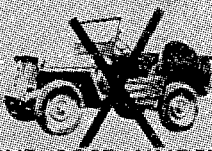
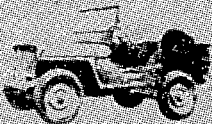
One of the objectives of this study is to determine to what extent commercial and quasi-military vehicles can be used to replace the more costly military vehicles. Recommendations on the basis of these studies will be made to the Secretary of the Army in May.

CHART 10



## REDUCTION IN PROCUREMENT AND OPERATING COSTS

**TASK: DEVELOP LOWER-COST 1/4 TON TRUCK**

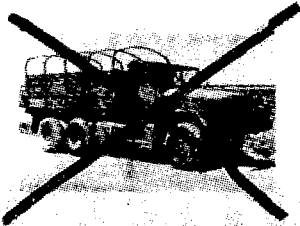
<p>REPLACE:</p>  <p>PRESENT COST: UNDER \$2500</p>	<p>WITH:</p>  <p>TARGET COST: UNDER \$2000</p>
---	---

**PROGRESS: QMR APPROVED INDUSTRY  
PROPOSALS SOLICITED**

CHART 11



## DETERMINE MAXIMUM USE OF CIVILIAN AND QUASI-MILITARY TYPE VEHICLES



**PROGRESS:                    STUDY UNDERWAY**  
**COMPLETION DATE:            MAY 1964**

Gentlemen, I have outlined some of the ways in which the Army has implemented the cost reduction program and some of the actions which will have future benefits.

We got off to a good start in fiscal year 1963 by exceeding our goal by 50 percent. We are well on our way to our goal of \$818 million for this year.

(Chart No. 12.) On the strength of our past performance and the interest and efforts that are being expended by all Army personnel to generate savings, we are confident that the Army will do its full share in assuring the success of this most important program.

This concludes my briefing. Are there any questions?

### ARMY'S COST REDUCTION PROGRAM

General COLGLAZIER. The purpose of my presentation is to summarize the Army's cost reduction program, with particular emphasis on our program to improve the calculation of materiel requirements; in other words, under Mr. McNamara's program, "buying only what we need." Primarily, this program has been implemented at all echelons of the Army, beginning with the Secretary. Our emphasis has been to make this a project for all of our personnel. We have done so through a number of means.

With respect to our accomplishments to date, as Mr. McNamara stated with respect to the Department of Defense, in fiscal 1963, the Army exceeded its goal by 50 percent, accomplishing \$678 million against a goal of \$459 million. In the area of my particular interest, buying only what we need, we accomplished \$338 million against a goal of \$254 million.

So far, in fiscal 1964, we have accomplished 54 percent of the annual goal, and we anticipate that we will meet our total goal for the year. Our initial focus of effort was in the computation of end item requirements; the "Bellwether area," susceptible to major savings. The basis for this was the Chief of Staff's policy, which I have shown on

## CHART 12

# COST REDUCTION IS EVERY BODY'S BUSINESS



chart No. 5. Essentially the attempt here is to apply our funds in those areas where you obtain the maximum combat effectiveness for the dollar. Our requirements documents should contain only the minimum requirements for the performance of the mission, and in all respects, measure the criteria against cost, in other words, cost effectiveness.

These particular principles were looked into by all elements of the staff. The research and development people who initiate the action which ultimately leads to procurement were involved.

A review project, including all levels of the organization, started with the ROAD divisions. You may recall, sir, that the Army recently reorganized its divisions under the ROAD concept, and essentially here, the effort has been before final approval of the tables of organization and equipment, to see if we complied with the principles; in other words, allocating only the minimum required for the job.

This paid off. We were able to reduce a number of major items, including radios, tanks, and trucks. I want to make a particular point that these reductions were not made at a sacrifice of the Army's operational or combat capability. The operational people were the ones who actually eliminated these items

From there, we have gone into the matter of replacement factors. We have actually reviewed all types of allocations. To give you an example, in connection with our peacetime replacement factors for aircraft, we found that the inventory control points were not taking advantage of the experience information which they have had on peacetime use, and the net result was that there was an overestimate within the materiel program. In this one area alone, we anticipate that by reducing to actual experience, we will be able to save over a hundred million dollars over the next 5 years.

Because we do not budget for all of our requirements in any one year, we actually don't take advantage of this in our own cost reduction reporting, until such time as the buyout year for the program. We are making follow-on studies of replacement factors, also of maintenance floats and other items which enter into the calculations.

Another task group—and this is particularly important—reviewed Operational Projects. These are requirements that grow out of strategic and contingency plans as opposed to the normal requirements of a unit. They include bridges, field fortification equipment and other items of this nature. We were able to cancel 9 projects and 16 were reduced. In connection with these studies, to show that all echelons of the Army are interested, the U.S. Army in Europe saved \$38 million in this area alone.

We then looked into the matter of ammunition for training. This is a large continuing annual requirement. The continental Army Command reviewed this. Based on their review, we anticipate \$35 million annual savings. These savings will be reflected in our materiel program and picked up ultimately in our cost reduction program.

Now, I want to make a point with respect to ammunition for training, since it has such an impact on our capabilities. The reductions that were made were completely acceptable to the training people. Although in some cases, we actually increased allowances the net result was an overall reduction. I have included one or two examples, Mr. Chairman, in my statement, that point this out.

I mentioned the research and development effort to conform along with Chief of Staff's principles of not designing and developing and then having to procure something that was not a real advance. We looked at the entire area, and 41 projects with a program value of \$23.8 million over the next 6 years were canceled.

As a matter of interest in this area, one of the things that the infantryman has always looked forward to is a mechanical foxhole digger, but this review, among other things, canceled this project. We just did not feel that it would work out, and certainly, we had other uses for the funds that were of higher worth and priority.

While we have completed a number of these areas, I want to assure the committee that our work in this entire program, in line with the Chief of Staff's principles, has not terminated with what we have accomplished to date. We are setting this program up as a continuing effort, in order that we can take full advantage of all possible savings that might accrue.

As the Secretary mentioned, the Army Audit Agency audits all of our reports to insure that the savings are actual, and that we have documentation to prove our points.



Now, I would like to mention just a few actions that are currently in progress. I spoke of the review of tables of organization and equipment, which are the formal allocation documents for tactical units; the units that most people think of, the divisions, regiments, and battalions. But there are also a series of allocation documents which have to do with posts, camps, and stations, training installations, and organizations of that kind, and we moved in on this area with our review. One of the reasons that we feel this is a very fruitful area is because these tables of allowances have not received, frankly, the same scrutiny that tables of organizations and equipment have in the past.

Now, in addition to making the review of the particular documents in effect, the Chief of Staff has directed that we look at the whole allocation system; the documentation which permits materiel to be in the system, and upon which our requirements are based. We expect that this will make for considerable saving, because in addition to the two allocation documents I have mentioned, the tables of organization and equipment and tables of allowances, we have such things as DA reorganization letters, organization and equipment guides, and equipment modification lists. The object of this particular review is to see that all these are brought under control.

This matter of maintenance float and replacement factors will be a continuing concern, for several reasons: One, of course, as new items are introduced into the system, we have to set these in order to make our computations. We are going to continue our review of the basic calculations. This will become a comprehensive review with task forces going out from the Department to the inventory control points.

In the interest of reducing the cost of some of our equipment, in addition to the procurement methods which Mr. McNamara has discussed, we have gone into the matter of the military requirements, so-called QMR's, which establish the type of equipment we want the designers to develop for us. The jeep was a prime example, although we reduced the cost materially through competitive buying. It is our considered judgment that we still have some "nice to have" requirements in our specifications, and that by looking at this, and reducing it to sheer functionalism, we will be able to get it under \$2,000, against about \$2,500 it now costs.

This project, incidentally, was one started on by Mr. Vance when he was Secretary of the Army, and in which he has had a continuing interest.

What we learn here, we hope to apply it to other types of trucks, as well as other general-purpose vehicles. Also, while we are taking a look at military characteristics of these high-density items, we are also going to look at the matter of application of commercial or quasi-military specification vehicles, because obviously, these are much less costly than military specification items.

#### ARMY'S GOAL \$818 MILLION SAVINGS IN FISCAL YEAR 1964

I just want to leave with you the importance of this particular area in the total cost reduction program, and the fact that because we have everybody in the Army interested in the program, we feel that we will make our goal of \$818 million for the current year.

Chairman DOUGLAS. Thank you very much. Mrs. Griffiths?  
 Representative GRIFFITHS. No, sir.  
 Chairman DOUGLAS. Mr. Curtis?

“OPERATION GARBAGE PAIL”

Representative CURTIS. Yes, sir, I am very much interested in methodology, particularly what I have referred to in the past as “Operation Garbage Pail.” I want to see whether or not you utilize this method of checking your supply system. How much surplus property did you generate, say, in 1963, in relation to 1962 and 1961? What are we realizing per dollar of cost on the sale of it?

General COLGLAZIER. Mr. Curtis, my memory on that—but I have not been in this field for some time—is that the surplus generations, that is, the actual excessing, has been a diminishing number the last 2 or 3 years. In the Army, it has dropped from—

Representative CURTIS. Could you supply those figures for the record?

General COLGLAZIER. Yes, I will be happy to.  
 (The material referred to follows:)

(a) During the years 1961 through 1963, the Army generated and disposed of the following amounts of surplus (millions of dollars):

	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
Gross generations.....	\$2,744	\$2,435	\$2,783
Gross dispositions.....	2,880	2,550	2,712
Utilized or transferred.....	(1,053)	(1,256)	(1,308)
Expended to scrap.....	(1,134)	(694)	(878)
Sold.....	(545)	(484)	(381)
Donated.....	(105)	(78)	(78)
Abandoned or destroyed.....	(26)	(27)	(52)
Other.....	(14)	(11)	(15)

(b) The amounts (millions of dollars) realized through the sale of surplus for these years were:

	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
Inventory value of property.....	\$548	\$484	\$381
Sold (other than scrap).....	\$45.4	\$41.3	\$29
Proceeds (percent of inventory value).....	8.3	8.5	7.6
Proceeds from sale of scrap and waste.....	\$22	\$19	\$18
Total realized.....	\$67.4	\$60.3	\$47.0

(c) The Army program analysts are responsible for periodic review of all programs to insure that procurement of new equipment does not exceed the requirements for the force structure as established by the Secretary of Defense. Specifically, the more important reviews are:

(1) *An annual review of the Army materiel plan.*—Representatives from the Army staff as well as from the Army Materiel Command and their commodity commands perform this review. During the review the total program for procurement of new equipment over the next 5-year period is developed and/or revised as required.

(2) *Changes in force basis.*—Changes in force basis or the early introduction of new equipment can be proposed at any time. However, the impact is very carefully weighed prior to any procurement action to insure that objectives are not exceeded.

(3) *Internal reviews on President's budget.*—In the fall of the year when the President's budget is being prepared, the Army staff holds numerous internal reviews to determine what readiness posture will develop as a result of the submission. Subsequent to this Army review, the budget is submitted to the Office of the Secretary of Defense (OSD).

(4) *Defense of budget submission.*—The Secretary of Defense requires that the Army defend the budget submission prior to consolidation with the other services. Department of Defense and Bureau of the Budget analysts review the budget on an item-by-item basis to determine the relationship of readiness in terms of requirements, assets, and proposed requirements.

(5) *Appropriation hearings.*—During the appropriating hearings before the Congress, the Army representatives are prepared to explain the Army requirements on any or all items contained within the Army portion of the budget.

(6) *Army justification to Secretary of Defense and DOD.*—After the congressional appropriations have been received in OSD, the Army again must justify to the Secretary of Defense and the Bureau of the Budget on a line item basis the need and justification for funds based on shortages and/or requirements. This review is an updating of requirements that may have occurred since the budget was presented to Congress.

(7) *Justification for Chief of Staff.*—The funds can and often are held up pending additional information or justification. When the Army receives the appropriation from OSD, the Chief of Staff (through DCSLOG) still may withhold funds if late information is received that may alter procurement.

(d) Notwithstanding the above procedures for reviewing planned procurement once equipment is introduced into the Army supply system, it will ultimately become surplus by reason of technological advances, changes in conduct of warfare, obsolescence, or unserviceability.

(e) Materiel is not sold, donated, or scrapped until it has gone through a prescribed screening and offering process to insure that it cannot be used to satisfy unfilled needs. The identification and utilization of this available materiel is of paramount concern to the Army. Four programs instituted within the last year have intensified the utilization of materiel before it becomes surplus. These are:

(1) *Utilization by mechanized screening of assets versus requirements (Project Plus).*—The purpose of Project Plus is to achieve increased utilization of releasable assets, with a reduction of effort on the part of commodity managers. Each commodity manager, at least semi-annually, reviews the complete inventory status of each item under his control in relationship to past, current, and future requirements. Requirements are matched against available assets on the basis of Federal stock numbers. In order to obtain maximum utilization, these matches are made not only against the prime stock number requested by the referring activity, but also against a record of interchangeable and substitutable stock numbered items furnished by both the requiring and asset holding activities. During the period July 1963 through January 1964, Army, under Plus procedures, has accepted over \$17 million worth of materiel and has furnished to the central depository at Battle Creek, Mich., asset data on 182,000 items valued at over \$604 million with requirements on 116,000 items valued at over \$2 billion, including interchangeability and substitute data on over 41,000 items.

(2) *Project Shakedown, an item technical analysis of federally stock numbered items.*—The purpose of Project Shakedown is to provide more accurate and comprehensive data on the identity and interchangeability characteristics of items. This project enables the commodity manager to better know what he has available. One of the significant reasons that more than one stock number applies to the same item is lack of adequate technical data. Nine Federal supply classes in the missile, aeronautical, and test equipment area are presently covered under this project. All data are being assembled and reviewed at one place called the "host activity." Quality control procedures have been established to insure a consistently high order of accuracy. The Army is responsible or "host activity" for three of the classes. Results of Shakedown have resulted in 9 percent duplicates, about 13 percent possible interchangeable or substitutable items and about 60 percent of the stock numbers requiring correction. The Secretary of Defense was recently furnished a study recommending the further extension of Shakedown to other technical classes.

(3) *Weapon systems materiel utilization program.*—The purpose of this program is to find other uses for components of phased-out weapons systems. Increased emphasis has been placed on using components of phased-out systems

for valuable new uses. For instance, radar and other equipment are being used in various operating and research programs. The results of certain transactions effected by Army is transferring missile components internally and to the other services for fiscal year 1963 and through January of fiscal year 1964 are as follows:

Weapon system :	Total utilization
Nike-Ajax missile.....	\$89, 222, 600
Corporal missile.....	2, 487, 375
LaCrosse missile.....	2, 209, 773.

The Army has reutilized over \$27 million worth of the above materiel.

(4) *Standard system for reporting materiel utilization.*—A new standardized system for reporting materiel utilization has been instituted by the Department of Defense. This system not only assures consistency of reporting from the lowest level, but will provide an auditable trail. In fiscal year 1963, the Army used \$344 million worth of materiel. The objective for fiscal years 1964 and 1965 is \$409 million and \$498 million respectively.

(f) The Army is currently reorganizing and streamlining its supply system by elimination of intermediate management echelons. This reorganization, initiated in December 1963, will result in a centralized-by-commodity system of inventory management. It is anticipated that this change will result in a major step forward in the improvement of materiel management within the Army.

Representative CURTIS. Again, I want to emphasize that I am checking methodology. In the "garbage pail operation," as I understand it, the supply sergeants particularly those in charge of the mess, would look in the garbage pail to see how efficiently they were utilizing the subsistence that they procured. In the same way, I think by looking at your surplus lists, you can gain some insight into where the system might have been going awry, or where improvement could be made.

Do you recommend this technique?

General COLGLAZIER. Yes, Mr. Curtis; I could not agree with you more as to the effectiveness of the "garbage pail" method of inspection of messes.

Representative CURTIS. It will apply elsewhere with the knowledge and assumption you are always going to generate excesses. A lot of it is obsolescence. A lot of things that are going to be in your surplus lists would be suppliable, certainly if we don't use the Monday morning quarterbacking technique. If we put ourselves in the position of the original procurement, even though it did generate a surplus, many of the things in there would point to something that had gone awry, and might even point to a basic error in the system.

General COLGLAZIER. Actually, we are looking at it in the departmental logistics staff from three points of view. The first is the type of control of the items that you are buying could be the basic cause for the excess in the first place. If this provides a reasonable stockage to support weapons systems which became obsolete, this is one thing.

Representative CURTIS. On the other hand, if in providing for a high-density system, you overbought, then this is entirely a different matter.

General COLGLAZIER. That is right.

Representative CURTIS. And then you look to see, well, why did this come about? Why were so many electric barber shavers or hair clippers procured? I remember that was one of the items in the list, and I have gone screening through it. We are talking about a list for the military that has been running around \$8 or \$9 billion a year.

Now, that could be justified. On the other hand, going through this—using this same figure of speech—going through this garbage pail, we found items in there that suggested that there was something wrong with the system. Now, my question is solely directed to whether or not this technique is consciously employed in your command in trying to check out the system itself.

General COLGLAZIER. Yes; it is. Let me give you a specific example, Mr. Curtis.

Representatives CURTIS. All right.

#### OVERPROVISIONING OF PARTS

General COLGLAZIER. One of the things that contributes to excess is, for our examination, overprovisioning of parts and components at the time we make the end item buy.

One of the causes of overprovisioning has been the fact that as we have gone along in production, we have made engineering changes, product improvement which in effect obsoletes the parts which we have bought. Having determined this particular cause, we have a project working with industry, where we hope to increase the amount of material that the contractor has on his line, with the idea in mind that he will support us more directly. We won't buy so much stock in support of the system until the item is more stabilized. The extra amount that the contractor has can be programed into end items, after we find that we no longer need to hold it for the purpose of the support of the system. I think this is going to save some money.

Representative CURTIS. Yes, that is the point. This becomes increasingly important, I think. When we have research and development moving as rapidly as it is in new weapons systems, for example, obsolescence is an increasing problem. I understand that some of your missiles, that were actually accepted on the basis of design, never were produced. This was probably wise because by the time they would have reached that point, better ones had been designed. Now, had you actually gone into production, of course, this would have shown up in surplus lists.

Chairman DOUGLAS. Mr. Widnall?

Representative WIDNALL. No questions.

Chairman DOUGLAS. Mr. Miller?

Senator MILLER. No questions.

Chairman DOUGLAS. Senator Javits?

Senator JAVITS. Mr. Chairman, I have just come in. I have no questions.

Chairman DOUGLAS. All right. We want to congratulate you on the progress of the Army. I know that this has not been easy. I want to thank you.

General COLGLAZIER. Thank you.

Chairman DOUGLAS. Our next witness is Senator Beall.

We are very glad to have our distinguished colleague with us.

#### STATEMENT OF HON. J. GLENN BEALL, A U.S. SENATOR FROM THE STATE OF MARYLAND

Senator BEALL. Thank you, Mr. Chairman and members of the committee.

For over 40 years, the Procurement Information Center, as operated by the Department of the Army and serving small, medium, and large business alike, has considerably contributed to a broader and stiffer competition on military procurements with resultant savings of hundreds of thousands of dollars to the Government.

Strangely enough, the Small Business Administration which 20 months ago temporarily assumed the operation of this function has set out to abolish this worthy function in the mistaken assumption that the Commerce Business Daily, SBA's 67 field offices, and regional meetings with small business concerns are an adequate substitute. This is entirely untrue.

Manufacturers of my own State, and I am informed from every State of the Union, have vigorously registered their protest that the invitations to bid, the bid tabulations and awards are not covered by any for the foregoing media and that the information displayed at this Center forms an indispensable and most essential tool in their daily bidding on Government procurements.

While the size and the format of the Commerce Business Daily only permits an abridged announcement of military invitations to bid in excess of \$10,000, does not carry important invitations of a larger dollar volume with a closer opening date than 15 days, has no space to carry bid tabulations whatsoever, and is limited to summary award information of procurements of over \$25,000, there is no duplication anywhere of the valuable functions of this Center.

It is a physical impossibility, for instance, for a metal fabricating manufacturer, of which there are over 260,000 in our country, to travel to far distant points to learn details of a particular procurement and upon opening of bids gain ready access to competitive bidding results. Bidders' mailing lists or defense clinics simply do not provide this information.

Before any drastic action is taken, I strongly urge the Joint Economic Committee to search out the truth and take appropriate steps to assure the preservation of this source of information which has amply proven its value over the period of years.

In conjunction herewith, I should like to request that a copy of a letter of January 15, 1964, addressed to the President by Arndt & Day, Washington, D.C., together with supporting memorandum of March 4, 1964, be made part of my testimony and included in the record.

(The letter referred to follows; see app. 1, pp. 267-286, for supporting memorandum.)

ARNDT & DAY,  
Washington, D.C., January 15, 1964.

HON. LYNDON BAINES JOHNSON,  
President of the United States,  
The White House,  
Washington, D.C.

DEAR MR. PRESIDENT: Remarkable as your economy drive is, we are afraid that in the process thereof grievous and irreparable errors can occur.

The precipitous closing of the Procurement Advisory Center, as intended by the Small Business Administration, is a vivid demonstration thereof.

Ever since President Wilson inaugurated in 1919, in wise foresight, the Procurement Information Center, then operated by the Department of the Army, this Center has proven its worth through millions of dollars in savings to the taxpayer.

Briefly, here a manufacturer may gain knowledge of all Army, Navy, and Air Force invitations to bid and be able to inspect bid results from the official bid tabulations covering these invitations.

This information is not readily accessible elsewhere, and a manufacturer would have to employ a host of scouts to cover daily each defense installation individually to obtain this knowledge.

The projected closing of this Center as of January 31, 1964, would mean that thousands of invitations to bid would remain unknown to the manufacturers, competition would be stifled with resultant higher prices to the Government and the taxpayer.

The lack of information on competitive bid prices—no manufacturer can afford to travel to Hawaii, Puerto Rico, Alaska, and other remotely located military bases in this country—would further mean that on repeat bids a manufacturer, ignorant of his competitor's previous price, would be loath to reduce the amount of his bid.

Thousands of dollars are each day saved by the Government by bidders underbidding each other. They can do this only knowing what their competitors bid before.

Contracting officers susceptible, as all humans, to human frailties, aware of their actions no longer being subject to public scrutiny at a focal point in Washington, may be less prone to awarding a contract to a deserving party, and all kinds of skulduggery may be in store.

The abrupt and unilateral action of the projected closing of this Center was announced without prior consultation with industry and the direct and beneficiary users of this Center which, conservatively estimated, number 80,000 manufacturers.

Somehow, we feel it is our duty to call your attention to a grave error brought on by misinformed deliberations, only to comply blindly with your request for economy in Government, without realizing the ensuing waste of public funds which such a move entails.

Since the Bureau of the Budget still seems to favor the continuous operation of this governmental function, perhaps you may wish to hold up the closing of this Center temporarily in order to afford industry and Government an opportunity to work out a mutually salutary solution.

Sincerely,

ERNST-THEODORE ARNDT.

Chairman DOUGLAS. That will be done.

Senator BEALL. Thank you, Mr. Chairman.

Chairman DOUGLAS. Thank you, Senator, very much. I understand that the Budget Bureau is studying this problem and, as you suggest, we will ask them for a report for the record. (See app. 1, p. 274.)

Thank you very much.

Senator BEALL. Thank you.

(Additional information, including questions by Senator Javits and Congressman Curtis to Bureau of the Budget, and answers thereto, pertaining to closing of Procurement Information Center, also appears in app. 1.)

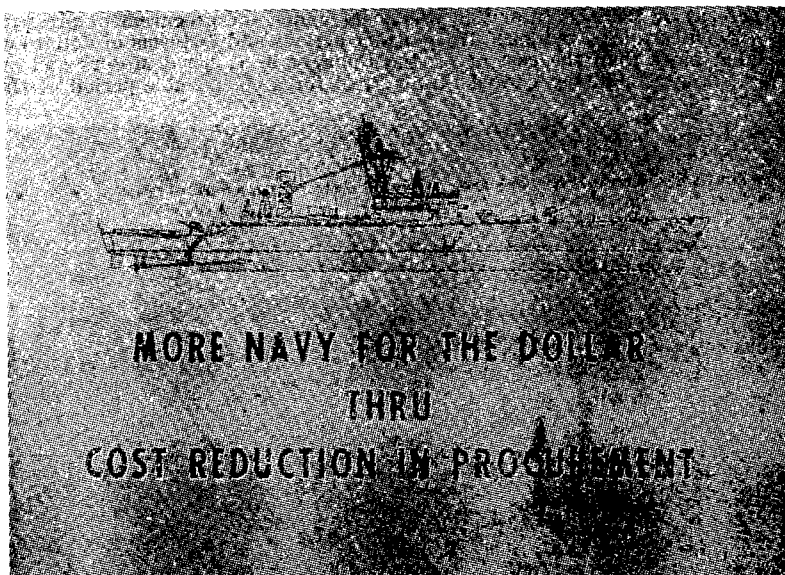
Chairman DOUGLAS. Now, Admiral Schoech, would you be kind enough to proceed?

**STATEMENT OF VICE ADM. WILLIAM A. SCHOECH, U.S. NAVY, CHIEF OF NAVAL MATERIAL**

Admiral SCHOECH. Mr. Chairman, at the request of your staff, I will submit for the record my complete statement which normally takes about 20 minutes. I will attempt to hit the highlights of that at this moment, with your permission, sir.

Chairman DOUGLAS. Yes, indeed. That will be very satisfactory. (The complete statement referred to follows:)

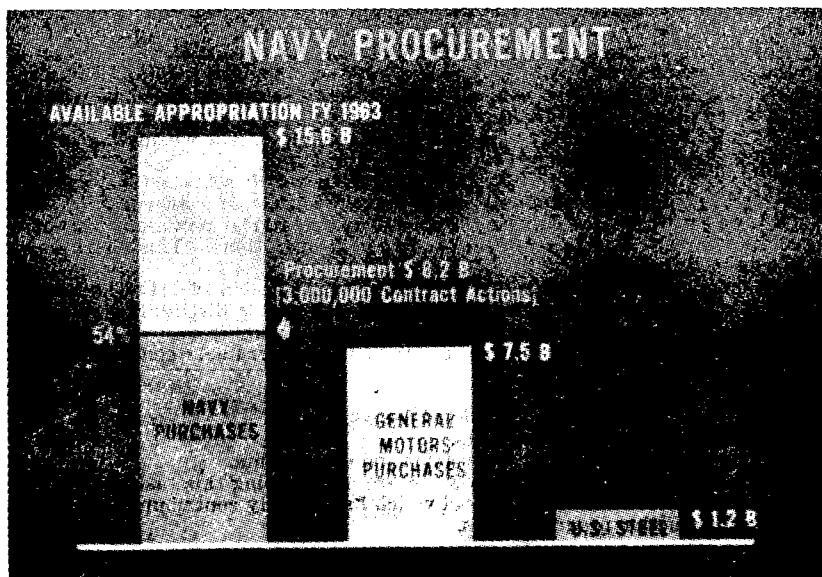
STATEMENT BY VICE ADM. WILLIAM A. SCHOECH, U.S. NAVY, CHIEF OF NAVAL MATERIAL



Mr. Chairman and members of the committee :

I. My subject today is Navy cost reduction. At the outset I want to make it clear, however, that we harbor no thought of any kind of reduction—either in quality or in quantity—which would weaken U.S. seapower or jeopardize our capability to control the seas in armed conflict.

Our concern is first with the procurement of Navy “beans and bullets” of high performance and reliability and second with acquiring these necessities in an economical fashion.





Before speaking to some specific cost reduction actions that we are taking let's take a look at the size of the Navy's procurement task.

II. In fiscal year 1963 we had \$15.6 billion in available appropriations. Fifty-four percent or \$8.2 billion of this was spent under our procurement programs. This expenditure involved 3,220,376 contract actions and in terms of dollars was somewhat more than the cost of products bought by General Motors and over six times that bought by United States Steel for a comparable period of time.

PROGRAM	MILLIONS	PERCENTAGE
AIRCRAFT	\$2,131	26
SHIPS	1,673	20
GUIDED MISSILES	1,444	17
ELECTRONICS	882	11
	\$5,130	74
OTHER	2,105	26
TOTAL	\$ 8,235	100

III. The \$8.2 billion on the preceding chart includes four major programs—aircraft, ships, guided missiles, and electronics. They represent 74 percent of all Navy procurement dollars.

How we buy is in a large measure determined by what we buy. The type of item, the complexity of its development and construction, and the urgency of our need for it, are all factors which will affect the final decision to advertise or negotiate, procure from a sole source, use the cost-plus-fixed-fee approach, fix a firm price, ask for unlimited competitive bidding, or issue an incentive contract which will reward superior performance.

IV. In addition to the effect on procurement methods, what we buy has organizational implications.

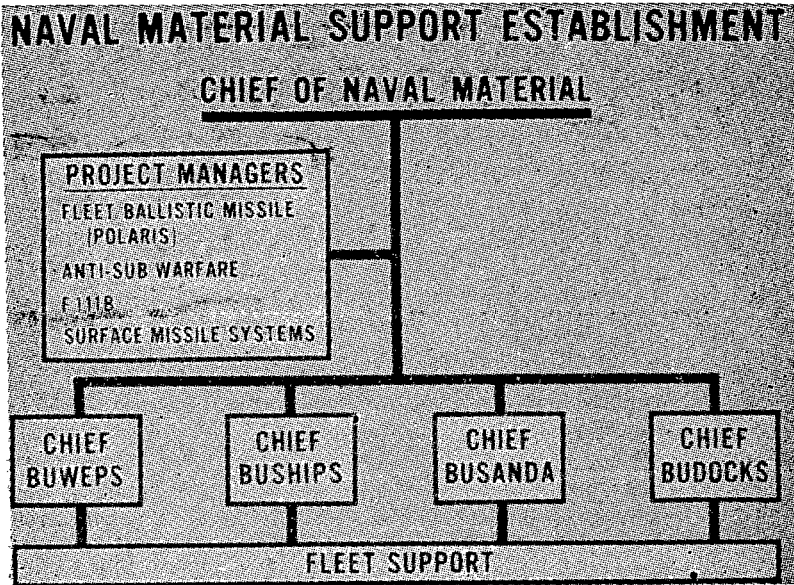
The Navy has just undergone a reorganization which reflects the impact of highly complex modern weapons systems upon procurement management. As a result of this reorganization, the Chief of Naval Material now has overall responsibility for the Navy's material procurement operations. This chart shows how we are now organized.

The command channel established by the reorganization clearly places upon the Chief of Naval Material the prime responsibility for directing the cost reduction program in the Navy's material procurement areas.

V. In the procurement field, the cost reduction program is concentrating in these areas:

1. Increased price competition.
2. Decreased use of cost-plus-fixed-fee contracts.
3. Reduction of letter contracts.
4. Increased breakout of subsystems and components.

At this point I wish to tell you how we are approaching this task. First, the Navy has developed a management tool which has already contributed to all four of these cost reduction program areas.



- COST REDUCTION PROGRAM**  
 (PROCUREMENT)
1. Increased Price Competition
  2. Decreased use of CPFF Contracts
  3. Reduction of Letter Contracts
  4. Increasing Breakout of Subsystems and Components

# ADVANCE PROCUREMENT PLANNING

<APP>

**A COORDINATED EFFORT  
TO ACHIEVE MORE EFFECTIVE  
& ECONOMICAL PROCUREMENT.**

VI. We expect increasing benefits with further application of this tool—which we call advance procurement planning, or APP.

The Secretary of Defense has stressed advanced planning by subscribing to the philosophy that, "We must constantly challenge cases where performance and delivery deadlines do not permit adequate advance preparation and force the use of \* \* \* noncompetitive procurement."

This is exactly what advance procurement planning does. And it does much more. It charts our course for 3 to 5 years ahead—a chart which projects a long-term picture of where we are going, how we will get there, and how to get there at least cost.

VII. The advance procurement plan consists of two sections. The first section describes the requirement; identifies responsibilities; summarizes R. & D. and previous procurement history; and cites the plans for data requirements, competition, breakout, subcontracting, and the types of contracts to be used. The second part sets forth the plan in terms of events and milestones.

## ADVANCE PROCUREMENT PLAN

### SECTION I

#### A. SYNOPSIS

- The requirement
- Assignment of responsibilities

#### B. BACKGROUND

- R & D history
- procurement history

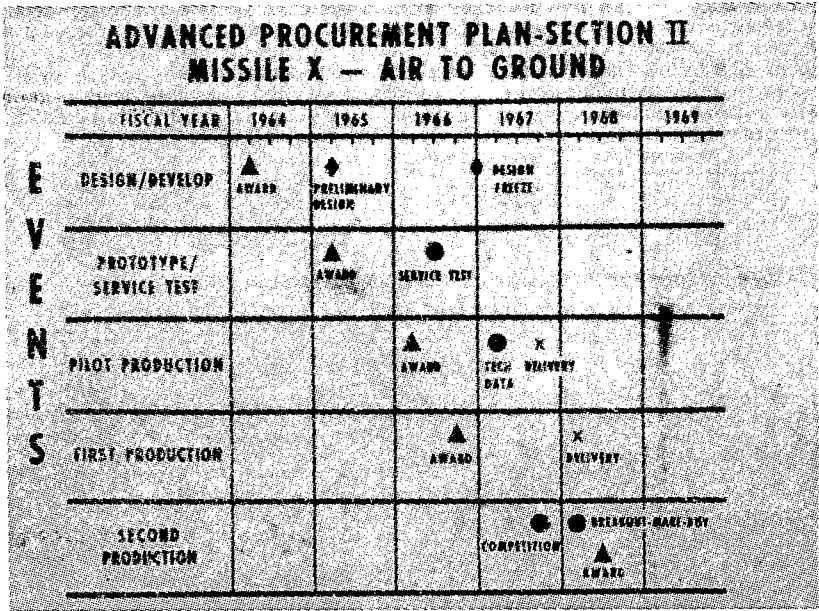
#### C. PROCUREMENT PLANS

- Basis for non-competitive procurement.
- Technical data requirements
- Competition
- Breakout
- Subcontracting
- Type of contracts

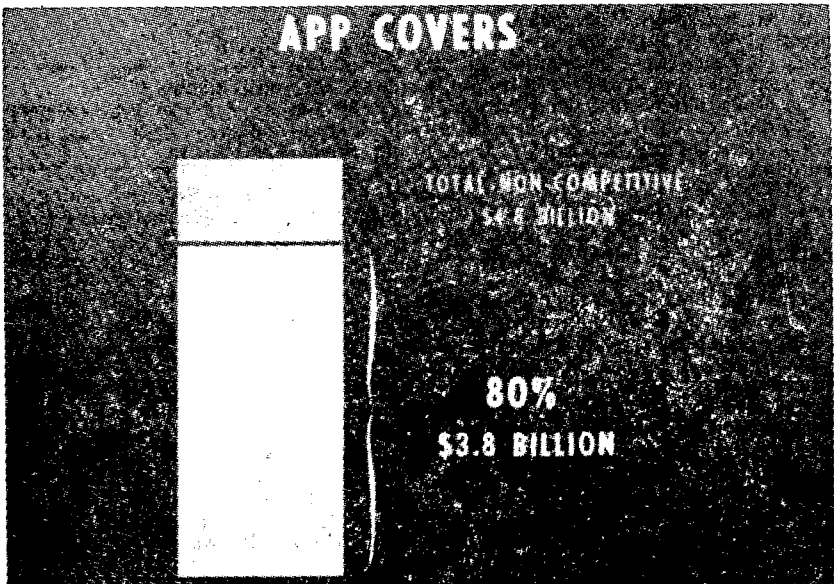
### SECTION II

#### A. COMPOSITE TIME-PHASED PLANS

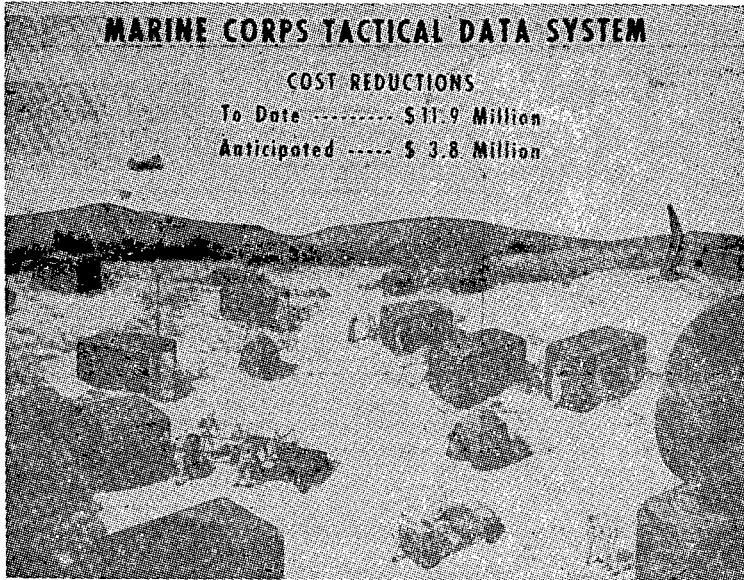
- Milestone charts



VII. This chart gives a simplified example of the second section of an advanced procurement plan for a hypothetical air-to-ground missile. As you can see the events on the left side of the chart are the steps necessary to bring the missile from development to fleet use. The timing of these steps and the milestones for their accomplishment are set forth, under the appropriate fiscal year, on the chart. Notice that it can take several years—1964-67—before design and development progresses to the point where price competition can be obtained. Such advance planning permits us to make sure-footed decisions which will lead to competition at the earliest feasible time.



IX. Using the staff now assigned to him, the chief of naval material is able to review and apply advance procurement planning to all negotiated procurements valued at \$300,000 in development or \$1 million in production. This means that about \$3.8 billion—or 80 percent of the Navy's noncompetitive dollars—will be reviewed annually under advance procurement planning. As experience is gained with review techniques, we expect to be able to expand application of advance procurement planning.



X. Here is a concrete example of advance procurement planning. It involves a transportable, automated Marine Corps tactical data system which is linked to the Navy's shipborne tactical data system. These systems collect, store, compute, and display target and control information for aircraft, surface-to-air missiles, and ships. Two years ago the Bureau of Ships, after applying advance procurement planning to the Marine Corps system, identified five major subsystems which were considered suitable for planned breakout. By "breakout" we mean dividing a weapon system into subsystems and components for purchase from other than the prime contractor.

To date, three of the subsystems have been subjected to competitive contracting. Savings are \$11.9 million. An additional \$3.8 million in savings is anticipated.

XI. The first of the three subsystems chosen for breakout was a radio relay terminal. This terminal provides tunable, microwave and diffraction, or troposcatter communications. It is designed to provide full duplex multichannel voice, data, or teletype communications over paths ranging from 1 to 100 nautical miles.

The terminal was expected to cost about \$190,000 if procured from the prime contractor. Following breakout and price competition, the lowest—and successful—bidder obtained a contract at an average unit price of \$72,283.

As indicated, on the 88 relay terminals procured, savings of over \$10 million resulted.

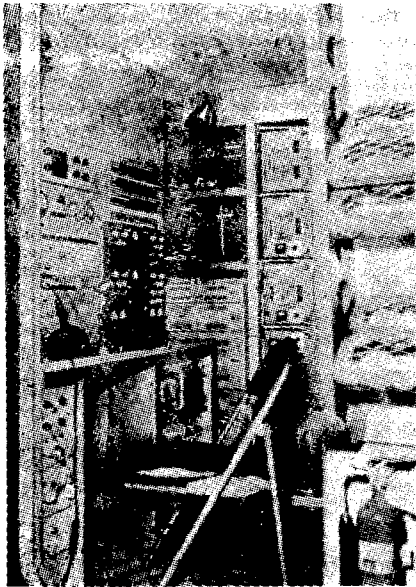
XII. When the second of three subsystems, a UHF communications complex, was subjected to competition, savings of \$51,000 per unit were obtained. On the basis of 20 units bought to date the savings amount to over \$1 million.

XIII. Equipment for the ground-air data link in this tactical data system—which provides communications between aircraft, tactical air operations centers, and the tactical air control center—was also procured under a breakout contract, the average unit price was \$23,370. A total of 43 units was required. Total savings were \$586,090.

The diagram illustrates a communication system using tropospheric scatter. On the ground, there are two main stations labeled "TROPOSPHERIC SCATTER" and "MICROWAVE OR VHF". The "TROPOSPHERIC SCATTER" station has a large parabolic dish antenna. The "MICROWAVE OR VHF" station has a smaller antenna. In the sky, there are several "RELAY STATIONS" represented by smaller parabolic dishes. Dashed lines indicate the signal paths between the ground stations and the relay stations, and between the relay stations themselves. The sky is depicted with clouds.

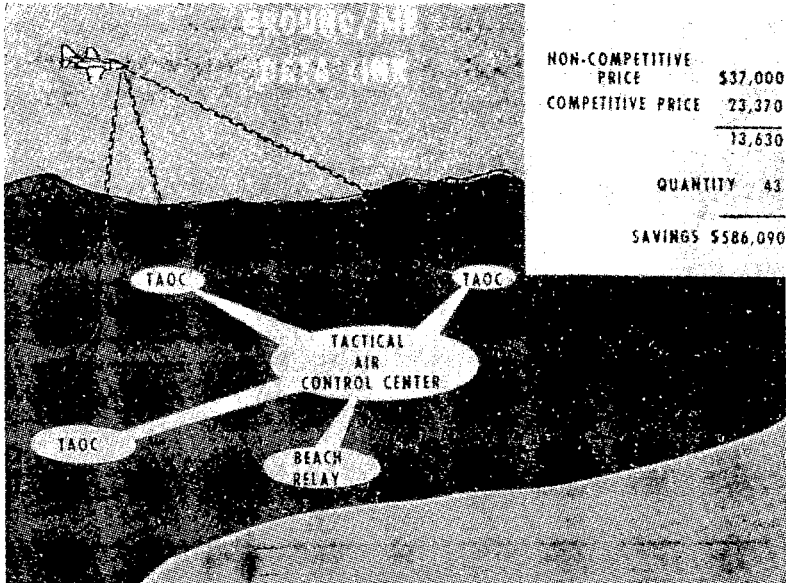
NON-COMPETITIVE PRICE	\$190,000
COMPETITIVE PRICE	72,283
	<hr/>
	\$117,717
QUANTITY	88
SAVINGS	\$10,359,096

**TROPOSPHERIC SCATTER RADIO RELAY TERMINAL**



**UHF COMMUNICATIONS COMPLEX**

NON-COMPETITIVE PRICE	\$ 300,000
COMPETITIVE PRICE	249,000
	<hr/>
	51,000
QTY.	x20
	<hr/>
SAVINGS	\$1,020,000



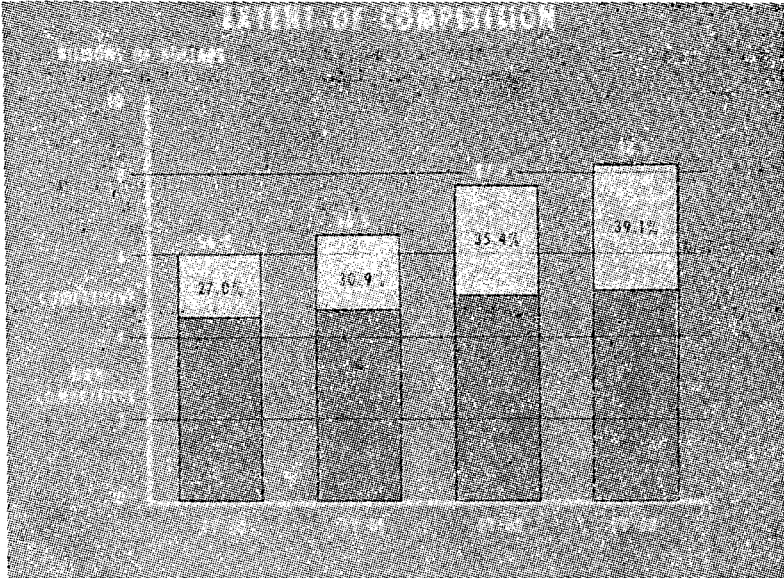
The two remaining subsystems are still undergoing test and evaluation. When these two items are "broken out" we expect an additional saving of \$3,800,000.

XIV. The advance procurement planning technique works as well for a smaller item as it does for major procurements. For instance, a relatively low cost radio receiver.

In this case, by following the milestones set up in our advance procurement planning we injected competition at an early stage. As you see, the resulting savings were more than \$800,000.







The foregoing examples—which illustrate the application of advance procurement planning to large as well as small procurements—are specific cases in which determined effort resulted in reduced costs.

XV. To gain a better appreciation of how total cost reduction efforts are paying off, let's look briefly at our progress under the other areas, of competition, cost-plus-fixed-fee and letter contracts.

This chart shows how we are doing in price competition. As you may note there has been significant improvement.

This area is receiving our most intensive efforts. Department of Defense studies have shown that when price competition is introduced, savings of at least 25 percent result. Under the Navy's cost reduction program, increased competition has resulted in audited, hard savings of \$97 million for fiscal year 1963. We anticipate even larger dollar savings in fiscal year 1964.

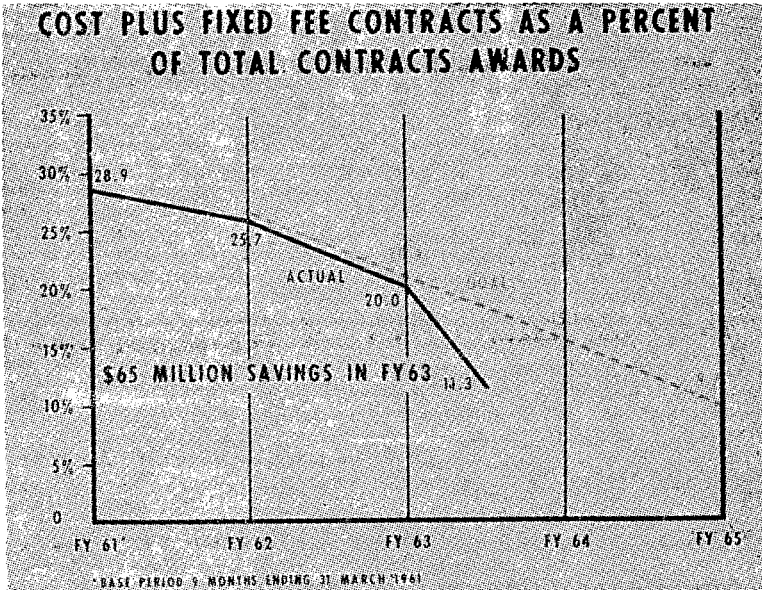




XVI. In our efforts to shift away from cost-plus-fixed-fee contracting we are boring in on the problem in the following manner:

First, to sharply reduce the use of cost-plus-fixed-fee, firm, fixed-price and incentive contracts are being emphasized. Here the contractor accepts profit or loss responsibility, and consequently a greater amount of risk.

Second, we are employing project definition—which is preliminary engineering and contract management planning. This is but another part of advance planning where we do the necessary homework before launching full scale into a project. It is the purpose of project definition to force both our own people and industry to carefully plan development of weapons systems. Under this procedure competition is encouraged and the need for fixed-fee contracts is reduced to a minimum.



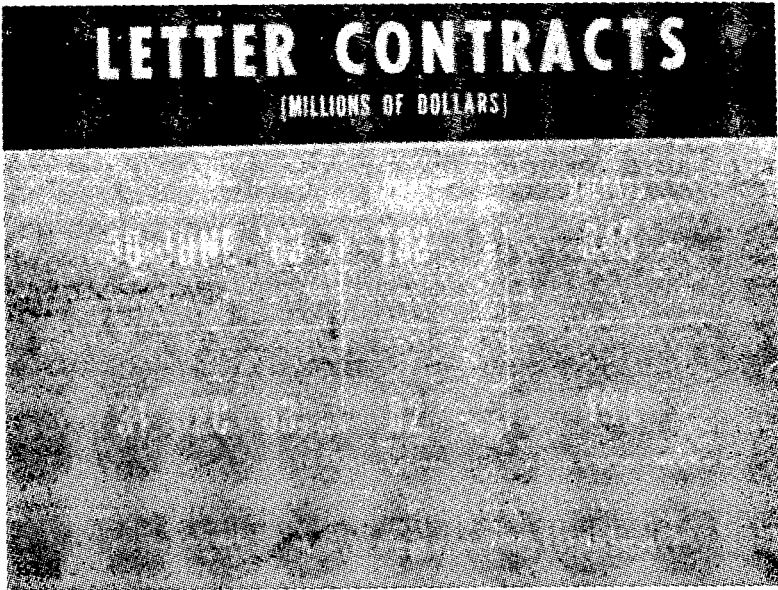
XVII. This chart illustrates our progress in reducing the number of cost-plus-fixed-fee contracts. The dotted line shows our goals. The solid line shows actual accomplishments. The solid line also reveals that, at the midpoint of this fiscal year, we were well under our goal, and that the trend in the number of cost-plus-fixed-fee contracts is definitely downward. We have every expectation of meeting our goal of 15.1 percent for this fiscal year.

The Department of Defense estimates that there is a 10-percent reduction in cost when cost-plus-fixed-fee contracting is eliminated. Using the Department of Defense yardstick, a \$65 million saving resulted.

XVIII. Letter contracts have always been a problem. At times they are a necessary contractual instrument when the urgency of a requirement obviates the use of normal procurement processes. However, letter contracts must be initiated only under the most rigidly controlled circumstances and must be converted at the earliest practicable time. Over the past year we have concentrated our efforts in converting existing letter contracts and have established more rigid control on their initiation. This area is a relatively recent addition to the cost reduction program. Since July of 1963, as you may note, we have reduced outstanding letter contracts by about half, both in terms of dollars and total number of contracts.

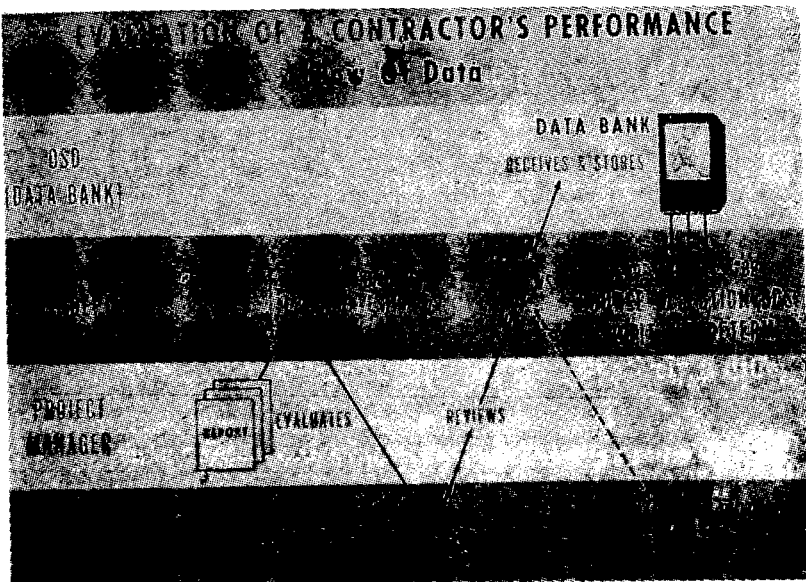
XIX. Just to emphasize that we are not overlooking other means of reducing procurement costs, I should like to tell you briefly about two other projects.

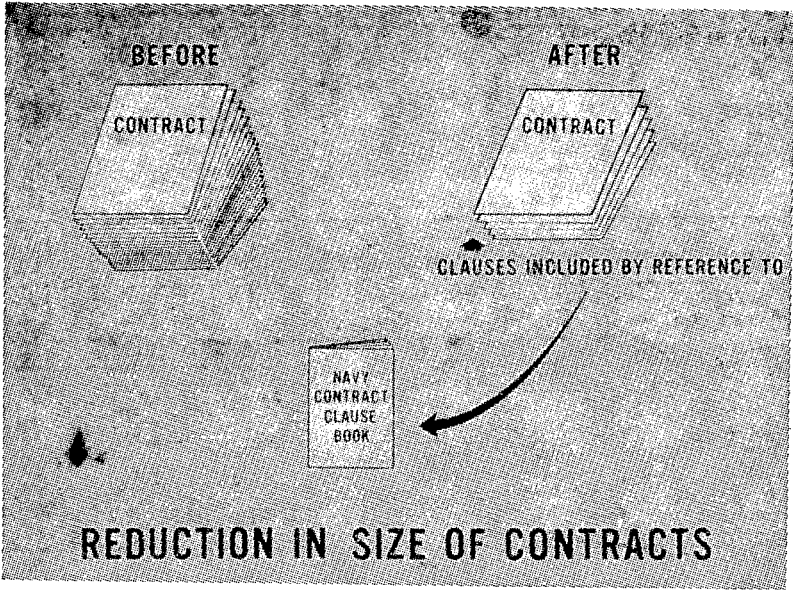
The first is contractor performance evaluation. This documental evaluation is designed to provide future military source selection boards with good evidence of the past performance of any particular company with respect to costs, delivery



and quality. The contractors cost reduction program is a part of this evaluation. A present contractor who aspires to future Navy business is well aware that he is being judged on (1) how wisely he has promised and (2) how well he has actually performed. He can be expected to try very hard to earn a sound reputation for rockbottom costs, prompt delivery and high quality. This chart shows the flow of performance reports as they pass through the various review levels into the central data bank.

XX. The application of improved contracting techniques to the large new programs results in immediate and readily measurable dollar savings. No



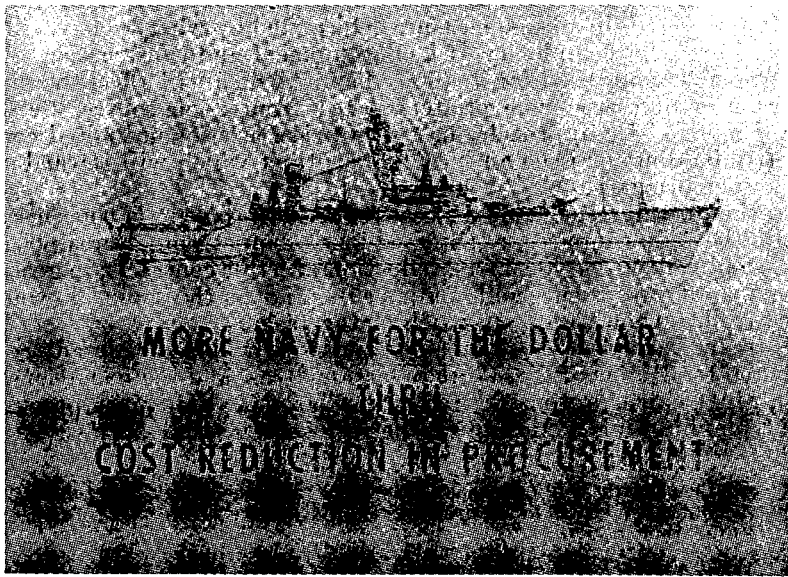


less important over the long cost reduction haul, however, is a constant attempt to cut costs by eliminating paperwork in contract operations. Even a small cut in paperwork here will pay dividends. As a case in point, the Navy has developed and is beginning a pilot test for the Department of Defense of a standard contract clause book. Contractors doing business with the Navy will receive copies of this book. It will contain standard clauses employed in fixed price supply contracts—which generally range from 15 to 50 pages in length. Rather than to insert each full clause into each separate contract document, contracts can merely make reference, by number, to the applicable clauses in the clause book. This simple expedient will eliminate an average of 13 pages in each copy of Navy fixed price supply contracts.



XXI. A conservative estimate of resultant annual savings for the pilot test alone is \$360,000—the cost of 22,750,000 printed contract pages. This of course does not include collateral savings in filing space, mailing, handling and the like.

Before final adoption, the clause book will be expected to prove its efficiency and economy by actual use during the coming year.



I think you will agree that we are making significant progress in building a better Navy at less cost.

I can assure you that the Navy is deeply conscious of the pressing need to reduce costs—a need which has been emphasized by the President, by the Secretary of Defense, by the Secretary of the Navy, and by this committee.

The Navy will continue to exercise the utmost thrift and frugality and will endeavor to be an example of prudence and economy in all of its operations.

Admiral SCHOECH. I suspect this will take me 3 or 4 minutes, I believe.

Chairman DOUGLAS. Yes.

#### NAVY COST REDUCTION PROGRAM

Admiral SCHOECH. Mr. Chairman and members of the committee, my subject today, as you know, is Navy cost reduction. At the outset, I want to make it clear, however, that we harbor no thought of any kind of reduction—either in quality or in quantity—which would weaken U.S. seapower or jeopardize our capability to control the seas in armed conflict.

Our concern is first with the procurement of Navy “beans and bullets” of high performance and reliability and second with acquiring these necessities in an economical fashion.

I should like to tell you very briefly what the size of the Navy’s procurement program is. In fiscal year 1963, we had \$15.6 billion dollars in available appropriations. Fifty-four percent, or \$8.2 billion of this was spent under our procurement programs. This expenditure involved 3,220,000 contract actions and, in terms of dollars, was some-

what more than the cost of products bought by General Motors and over six times that bought by the United States Steel Corp., for a comparable period of time.

The \$8.2 billion includes four major programs—aircraft, guided missiles, ships, and electronics. They represent 74 percent of all Navy procurement dollars.

How we buy is in a large measure determined by what we buy. The type of item, the complexity of its development and construction, and the urgency of our need for it, all are factors which will affect the final decision to advertise or negotiate, procure from a sole source, use the cost-plus-fixed-fee approach, fix a firm price, ask for unlimited competitive bidding, or issue an incentive contract which will reward superior performance.

In the procurement field, the cost reduction program is concentrating in the following areas: Increased price competition, decreased use of cost-plus-fixed-fee contracts, reduction of letter contracts, increased breakout of subsystems and components, and at this point I would like to tell you how we are approaching this task.

First, we have developed a management tool which has already contributed to all four of these cost reduction areas, and the management tool, Mr. Chairman, that I refer to is what we call advance procurement planning. Mr. McNamara has stressed that advance procurement planning by subscribing to the philosophy that :

We must constantly challenge cases where performance and delivery deadlines do not permit adequate advance preparation and force the use of \* \* \* noncompetitive procurement.

This is exactly what this plan which I mentioned, advance procurement planning, does, and it does much more, actually. It charts our course for 3 to 5 years ahead, a chart which projects a long-term picture of where we are going, how we get there, and how to get there at least cost.

I think that it would probably take too much time for me to go into the details of how we are coping with our noncompetitive procurement problems, our cost-plus-fixed-fee, which are all included in my statement, Madam Chairman (Representative Griffiths presiding), and, if I may then, I would just like to conclude this abbreviated statement with these words: that I can assure you that the Navy, along with other services, is deeply conscious of the pressing need to reduce costs—a need which has been emphasized by the President, by the Secretary of Defense, by the Secretary of the Navy, and certainly by this committee. And we will continue to exercise the utmost thrift and frugality, and will endeavor to be an example of prudence and economy in all of its operations.

Thank you.

Representative GRIFFITHS. Thank you very much. Were you present when I questioned the Secretary?

Admiral SCHOECH. Yes, I was here; and I, of course, will provide the Secretary with the details on this. I am not personally acquainted with the specific case that you mentioned.

#### NAVY CONTROL OVER PRIMES AND SUBS

Representative GRIFFITHS. May I ask, though, when a contract is moved by the prime from one sub to another, what type of control do you have over it?

Admiral SCHOECH. I don't know that I can answer this question simply. We get reports, as are required by the Armed Services Procurement Regulations, regarding relationships between the primes and the subs. I would like to supply this for the record, if I may—exactly what we are required to do here.

Representative GRIFFITHS. Thank you very much. I would be very pleased to have you supply it for the record. But may I ask you another question? Under your procurement regulations, would it or would it not be possible for a prime to switch subs because a Navy inspector said that the sub was not adequate to make the item?

Admiral SCHOECH. Whether or not this is possible on his own authority or not, Mrs. Griffiths, I am not sure. I will have to supply this for the record. I would not think so, however.

Representative GRIFFITHS. May I ask you, further, to supply for the record if the inspector himself cannot make this determination of deciding that the sub is inadequate, to whom would he make his report? And, finally, who would make the determination that the prime could switch subs, or is it necessary for the Navy to be contacted at all?

Admiral SCHOECH. I think, again, this question cannot be answered simply. I think in the case of large subs, Madam Chairman, that undoubtedly this decision would have to be reviewed at our Bureau level, or perhaps at my level.

Representative GRIFFITHS. A contracting officer, if he determined that a sub were too expensive, could, if he had an adequate alternative, suggest to a prime that he place his business elsewhere, could he not? Or could he?

Admiral SCHOECH. I am sure he could suggest this.

Representative GRIFFITHS. Yes. Does he have any control to compel it?

Admiral SCHOECH. Again, Madam Chairman, I must check our regulations on that. May I supply this for the record, please?

Representative GRIFFITHS. Yes, I will be glad that you do. I really feel that it is a very difficult field. I question that there are adequate controls in procurement regulations, or in inspections, or in any other part of purchase to determine these subs. But I suggest to you, and to others, that this field is a sort of no man's land, and that we ought to go a long way to make sure that if primes are breaking subs in this country, are putting people out of work in this country, or having a tremendous impact upon the economy of an area, the Federal Government with its purchasing power should not be an accessory to the fact.

(The information supplied follows:)

Q. When a contract is moved by a prime from one subcontractor to another, what control does the Navy have over such a move?

A. The basic responsibility for selection of subcontractors rests with the prime contractor. The Navy normally has no right to select new subcontractors, but in certain cases, which vary with the type of contract and also the amount involved, the kind of subcontracts and circumstances surrounding negotiation, the Navy has a negative right to refuse to consent to subcontracts.

In connection with fixed price contracts where adequate competition is involved, the responsibility for the subcontract structure is solely that of the prime contractor. The Navy does not exercise a positive or negative influence in these cases.

In other types of contracts, the Government's right to consent to subcontracts is governed by contract clauses inserted in the contracts in accordance with Armed Services Procurement Regulations 3-903, 7-203.8 and 7-402.8. (See applicable Armed Service Procurement Regulations following these questions and answers.)

The Navy also influences the contractor's actions with respect to subcontracts by the inspection process, e.g., if the quality of a subcontractor's item is not adequate to pass inspection, rejection by the cognizant inspector may cause the prime contractor to change subcontractors in order to obtain adequate quality to pass inspection.

Q. Under procurement regulations would it be possible for a prime contractor to shift from one subcontractor to another as a result of a determination of a Navy inspector?

A. If a Navy inspector determined that the quality of a subcontractor's item was not adequate to pass inspection, this determination could result in the prime contractor shifting from one subcontractor to another in order to obtain the necessary quality.

Where the current subcontract is not adequate, the consent of the Government to subcontracts is required under one of the clauses submitted in reply to the previous question, and the authority to grant such consent has been delegated to the inspector, he could, and would be expected to, grant consent for the issuance of a new, adequate subcontract.

Q. If the inspector himself cannot make this determination but he has decided that the sub is inadequate, to whom would he make the report? Who would make the determination that the prime could switch subs or would it be necessary for the Navy to be contacted at all?

A. As previously indicated, the inspector can reject poor quality material which may involve an inadequate sub. If as the result of material rejections the prime contractor is technically in default, the inspector may recommend to the contracting officer that the contract be terminated for default. In such instances, the prime contractor may change subs in order to avoid a default.

Where Government consent to a new subcontract is required as indicated above, if the authority to grant such consent is not delegated to the inspector, the contracting officer would exercise such authority. Unless the consent of the Government is required, the Navy need not be contacted.

Q. A contracting officer, if he determines that a sub were too expensive could, if he had adequate alternative, suggest to a prime that he place his business elsewhere—could he not? or could he? Does he have any control to compel it?

A. Yes, the contracting officer could suggest a less expensive sub.

As previously indicated, where adequate competition establishes reasonable fixed prices, the Navy is only concerned that the contractor meets quality and delivery requirements at the contract price. In such case, contract cost, which determines the contractor's profit or loss position, is the responsibility of the contractor.

Under contracts where costs are subject to the approval of the Government, any costs finally determined to be unreasonable are disallowed. Where the Government's consent to subcontracts is required, such consent would not be given if the subcontract is considered too expensive. Price and competition obtained are among the factors considered in the review of individual subcontracts as provided in ASPR 3-903.4.

## Armed Services Procurement Regulations Relating to Preceding Questions and Answers

### SUBCONTRACTING POLICIES AND PROCEDURES—PROCUREMENT BY NEGOTIATION

#### 3-902.2 *Price Adjustments.*

(a) There may be cases where it is proper to agree that an item of significant value will be "bought" even though it would usually be more economical to have it "made," or vice versa. For instance, the contractor may have a unique capability for low-cost manufacture of a substantial component but his capacity may already be full during the period necessary for contract performance, so the component must be subcontracted. Therefore, the agreed "make-or-buy" program may specifically call for what would usually be the more costly treatment of the items and consequent higher costs may be explicitly recog-

nized in establishing the best obtainable contract price. Unforeseen changes in the circumstances, however, may arise during contract performance and may induce the contractor to propose changing the item from "buy" to "make" (or vice versa). If such a change is made the element of the contract price which was intended to compensate the contractor for the higher costs flowing from the initial make-or-buy decision will instead constitute windfall profits to the contractor and unwarranted costs to the Government.

(b) In procurements where the prospective contractor's "make-or-buy" program is reviewed pursuant to 3-902.1, if a situation of the kind described in (a) above obtains, the clause set forth below shall be included in the contract (unless it is a cost-reimbursement type contract) and any "make-or-buy" items of the kind described in (a) above shall be specifically designated in the Schedule (or elsewhere in the contract) both as being either a "make" item or a "buy" item and as being subject to this clause.

### PRICE ADJUSTMENT FOR MAKE-OR-BUY CHANGES (SEP. 1962)

This cause applies only to items that are designated elsewhere in this contract as being "make" items or "buy" items subject to this clause. If the Contractor desires to "make" any designated "buy" item or to "buy" any designated "make" item, he will give written notice to the Contracting Officer of the proposed change reasonably in advance and will include significant and reasonably available cost and pricing data in sufficient detail to permit evaluation of the proposed change. Promptly thereafter, if the Contractor proceeds with the change, the Contractor and the Contracting Officer will negotiate an equitable reduction in the contract price to reflect any decrease in costs which should reasonably result from the change, and the contract will be modified in writing accordingly. Failure to agree on an equitable reduction shall be a dispute concerning a question of fact within the meaning of the "Disputes" clause of this contract.

**3-903 Review of Subcontracting and Contractor's Purchasing Systems.** Examination of the contractor's purchasing system and plans for subcontracting, review of proposed subcontract sources and prices in the light of the factors indicated in 3-901, and discussions with contractor to bring about any adjustments which may be needed to clear the way for formal subcontract approval, should generally be accomplished as part of the negotiation of the prime contract. Any resulting purchasing system approvals may be granted before the contract is executed.

#### 3-903.1 Contract Clauses.

(a) The prescribed clauses, covering Government consent to subcontracts, for cost-reimbursement type contracts are set out in 7-023.8 and 7-402.8. Except where definite and final evaluation of the contractor's subcontracting is accomplished during negotiations, the following clause (unless modified in accordance with (b) or (c) below) shall be included in all fixed-price incentive and fixed-price redeterminable contracts where—

(i) it is anticipated that one or more subcontracts may each exceed \$100,000 or such other figure as is to be included in (b) (ii) and (iii) of the following clause in accordance with (c) below;

(ii) the work of the prime contractor, or of the plant or division of the prime contractor which will perform the contract, is predominantly for the Government; or

(iii) the estimated contract price is \$1,000,000 or more.

One of the clauses set forth in 7-203.8, 7-402.8, or below, whichever is appropriate, shall be included in each letter contract. In the event a letter contract is superseded by a definitive firm fixed-price contract or fixed-price contract with escalation, such clause shall be deleted at that time.

### SUBCONTRACTS (NOV. 1963)

(a) As used in this clause, the term "subcontract" includes purchase orders.

(b) Except as provided in paragraph (d) below, the Contractor shall notify the Contracting Officer reasonably in advance of entering into any subcontract which—

(i) is on a cost-plus-a-fee, time and material, or labor-hour basis and which would involve an estimated amount in excess of \$10,000 including any fee; or

(ii) is proposed to exceed \$100,000; or



- (iii) is one of a number of subcontracts under this contract with a single subcontractor for the same or related supplies or services which, in the aggregate, are expected to exceed \$100,000.
- (c) The advance notification required by paragraph (b) above shall include:
- (i) a description of the supplies or services to be called for by the subcontract;
  - (ii) identification of the proposed subcontractor and an explanation of why and how the proposed subcontractor was selected, including the degree of competition obtained;
  - (iii) the proposed subcontract price, together with the Contractor's cost or price analysis thereof;
  - (iv) the subcontractor's current, complete, and accurate cost or pricing data and Certificate of Current Cost or Pricing Data when such data and certificate are required, by other provisions of this contract, to be obtained from the subcontractor; and
  - (v) identification of the type of contract to be used.
- (d) Advance notifications of subcontracts, as required by paragraph (b) above, are not required for any subcontract (i) not on a cost-plus-a-fee, time and material, or labor-hour basis, if the Contracting Officer has in writing approved the Contractor's purchasing system and the subcontract is within the limitations of such approval, or (ii) consented to in writing by the Contracting Officer as a proposed subcontract prior to the execution of this contract.

(e) The Contractor shall not, without the prior written consent of the Contracting Officer, enter into any subcontract for which advance notification to the Contracting Officer is required by this clause; *provided* that, in his discretion, the Contracting Officer may ratify in writing any subcontract and such ratification shall constitute the consent of the Contracting Officer required by this paragraph.

(f) No consent by the Contracting Officer to any subcontract or any provisions thereof or approval of the Contractor's purchasing system shall be construed to be a determination of the acceptability of any subcontract price or of any amount paid under any subcontract or to relieve the Contractor of any responsibility for performing this contract, unless such approval or consent specifically provides otherwise.

(g) The Contractor agrees that no subcontract placed under this contract shall provide for payment on a cost-plus-a-percentage-of-cost basis.

(b) The clause set forth in (a) above may be appropriately modified so as not to require advance notification of, or consent to, any subcontracts which have been definitely and finally evaluated during negotiations. In this respect, the clause may limit advance notifications thereunder to one or more particular subcontracts or classes of subcontracts, or may, in individual cases, be tailored to unusual or particular circumstances.

(c) In paragraph (b) (ii) and (iii) of the clause set forth in (a) above, a lower dollar amount may be inserted in lieu of \$100,000 where it is determined that closer surveillance of subcontracting is desirable because of the character of the industry involved, the critical nature of work which will probably be subcontracted, the absence of competition in placing the prime contract, uncertainties as to the adequacy of the contractor's purchasing system, or the novelty of the supplies or services being procured. A higher dollar amount than \$100,000 may be inserted in paragraph (b) (ii) and (iii) of the clause when the insertion of the higher amount is approved at a level higher than that of the contracting officer, as prescribed by the Department concerned.

#### 3-903.2 *Consent to Subcontracts.*

(a) The contracting officer's consent to subcontracts required by the clause set forth in 3-903.1 (for fixed-price redeterminable or fixed-price incentive contracts) or the clause set forth in 7-203.8 or 7-402.8 (for cost-reimbursement type contracts) shall be accorded by individual consent on subcontract-by-subcontract basis. However, where the contracting officer has approved the contractor's purchasing system, in whole or in part, such consent is not required for subcontracts within the scope of such approval, except as to cost-reimbursement type, time and materials, or labor-hour subcontracts, and in the case of cost-reimbursement type prime contracts, subcontracts, which provide for the fabrication, purchase, rental, installation, or other acquisition of any item of industrial facilities.

(b) The purposes of subcontract consent requirements are usually best served if review and analysis of the contractor's purchasing system and of his proposed subcontracts are carried out in conjunction with negotiation of the prime contract (and concurrently with any review of the contractor's "make-or-buy" program as required by 3-902). Although consent to subcontracts cannot always be formally accomplished prior to execution of the prime contract (since definitive subcontracts are not generally entered into until after execution of the prime), the review, analysis, and discussion leading up to such formal consents should, where feasible, be conducted during the negotiation process.

(c) Purchases by a contractor from General Services Administration supply sources under a written authorization by the contracting officer (see 5-906) shall be treated as having been made with the consent of the contracting officer as required by the clause set forth in 7-204.28 or 7-403.23.

**3-903.3 Approval of Purchasing Systems.**

(a) Approval of a contractor's purchasing system should be granted only after a survey which includes review of such factors as:

- (i) the degree of competition obtained by the contractor's purchasing methods;
- (ii) the contractor's pricing policies and techniques, when necessary, including his methods of obtaining accurate, complete, and current cost and pricing data;
- (iii) the contractor's method of evaluating subcontractors' responsibility (1-906);
- (iv) the extent to which the purchasing system is consistent with any contract requirements covering small business and labor surplus area concerns;
- (v) the treatment accorded affiliates of the contractor or other concerns having close working arrangements with the contractor;
- (vi) the extent to which the contractor obtains assurance that his principal subcontractors apply sound pricing practices and a satisfactory purchasing system in dealing with lower-tier subcontractors; and
- (vii) types of contracts used (Section III, Part 4).

(b) Approval of a contractor's purchasing system may be unqualified or may be limited. For example, the purchasing system may be approved except for subcontracts in excess of a stated amount or except for subcontracts for stated work which is of such critical nature that extraordinary Government surveillance is called for. Where the approval is limited by reason of deficiencies in the purchasing system, the contractor shall be notified of such deficiencies and requested to correct them. In no case shall approval of the contractor's purchasing system waive the requirement for individual consent to cost-reimbursement, time and materials, or labor-hour subcontracts. In the case of cost-reimbursement type prime contracts, in addition to the foregoing, approval of the contractor's purchasing system shall not waive the requirements for individual consent to subcontracts which provide for the fabrication, purchase, rental, installation, or other acquisition of any item of industrial facilities.

(c) Upon approval of the contractor's purchasing system (whether unqualified or limited), the contracting officer shall give the contractor written notice thereof. The notice shall set forth any limitations on the approval and shall state that the approval does not (i) relieve the prime contractor of any of his obligations under any contract, (ii) restrict the Government from subsequently withdrawing the approval in whole or in part, or (iii) cover any unapproved material changes which the contractor may make in his purchasing system.

(d) After approval of the contractor's purchasing system, periodic examination of the contractor's operations under such system shall be made to determine whether any substantial changes in procedures, initiated by the contractor or as a result of recommendations by the Government, have occurred, as well as to evaluate the contractor's performance under the purchasing system.

(e) Prior to conduct of a survey of the contractor's purchasing system, the contracting officer or responsible activity shall ascertain in accordance with Departmental procedures whether other Department of Defense activities have conducted surveys of the purchasing system. In this connection, pertinent information relating to the most recent survey and the results thereof (including any updating accomplished) shall be requested and shall be furnished expeditiously by the activity performing such review. Maximum use will be made of the past evaluation in order to prevent needless multiplicity of surveys.

(f) In reviewing the contractor's purchasing system, particular attention should be paid to whether subcontracting is done competitively to the extent practical. This involves not only the question whether a sufficient number of sources is solicited, but also whether the contractor's subcontracting procedures provide all other elements of free and open competition, including adequate descriptions in solicitations of any factors to be evaluated and the basis for their evaluation, so that all offers may be evaluated on a common basis.

#### 3-903.4 *Review of Individual Subcontracts.*

(a) In reviewing or consenting to individual subcontracts, the contracting officer should give appropriate consideration to the following:

(i) whether the decision to enter into the proposed subcontract is consistent with the contractor's approved "make-or-buy" program, if any (see 3-902);

(ii) whether the proposed subcontract will require the use of Government-furnished facilities;

(iii) the responsibility of the proposed subcontractor (1-906);

(iv) basis for selecting proposed subcontractor, *including* the degree of competition obtained;

(v) cost or price analysis or price comparisons accomplished, with particular attention to whether cost or pricing data are accurate, complete, and current (see 1-303 and 3-807.3);

(vi) extent of subcontract supervision;

(vii) types of contracts used (Section III, Part 4);

(viii) estimated total extent of subcontracting, including procurement of parts and materials; and

(ix) the extent to which the prime contractor obtains assurance of the adequacy of the subcontractor's purchasing system.

(b) In reviewing subcontracts, careful and thorough evaluation is particularly necessary when:

(i) the prime contractor's purchasing system or performance thereunder are considered inadequate;

(ii) subcontracts are for items for which there is no competition or for which the proposed prices appear unreasonable (see 3-807.10(b));

(iii) close working arrangements or business or ownership affiliations exist between the prime and the subcontractor which may preclude the free use of competition or result in higher subcontract prices than would otherwise be obtained;

(iv) a subcontract is being proposed at a price less favorable than that which has been given by the subcontractor to the Government, all other factors such as manufacturing period and quantity being comparable; or

(v) a subcontract is to be placed on a cost-reimbursement, time and material, labor-hour, fixed-price incentive, or fixed-price redeterminable basis.

Where subcontracts have been placed on a cost-reimbursement, time and materials, or labor-hour basis, contracting officers should be skeptical of approving the repetitive or unduly protracted use of such types of subcontracts and should follow the principles of 3-803(b).

#### 3-903.5 *Disputes Provisions in Subcontracts.*

(a) Although consent by a contracting officer to a subcontract in and of itself does not constitute agreement with the terms and conditions of the subcontract, a contracting officer should not consent to a subcontract containing any clause purporting to give the subcontractor a direct right to obtain a decision of the contracting officer or a direct right of appeal to the Armed Services Board of Contract Appeals. The Government is entitled to the management services of the prime contractor in adjusting disputes between the prime contractor and his subcontractors. Contracting officers should act only in disputes arising under the prime contract, and then only with and through the prime contractor, even if a subcontractor is affected by the dispute between the Government and the prime contractor. Contracting officers should not participate in disputes between a prime contractor and his subcontractors.

(b) A contracting officer should not, however, refuse consent to a subcontract, particularly under a cost-reimbursement type contract, merely because it contains a clause that allows the subcontractor, if he is affected by a dispute arising under the prime contract, an indirect appeal to the Armed Services Board of Contract Appeals (i) by asserting the prime contractor's right to take such an appeal, or (ii) by having the prime contractor prosecute such an appeal on behalf of the subcontractor. Such a clause should not attempt to obligate the con-

tracting officer or the Board to decide questions that do not rise between the Government and the prime contractor, or that are not cognizable under the "Disputes" clause of the prime contract, and should not attempt to obligate the contracting officer to notify or deal directly with the subcontractor. Such a clause may appropriately provide that the prime contractor and subcontractor will be equally bound by the contracting officer's or Board's decision on a dispute.

(c) The prime contractor and his subcontractor may agree to arbitration to settle disputes. The results of such arbitration and the cost resulting therefrom, however, are not binding on the contracting officer; they are subject to independent review and approval under the prime contract. The contracting officer should not consent to provisions in subcontracts purporting to make the results of arbitration binding on the Government.

**3-904 Additional Contract Clauses.** Additional contract clauses with respect to subcontracting with Small Business and Labor Surplus Area concerns are set forth in Section VII.

## CONTRACT CLAUSES—CLAUSES FOR COST-REIMBURSEMENT TYPE SUPPLY CONTRACTS

### 7-203.8 *Subcontracts.*

#### SUBCONTRACTS (NOV. 1963)

(a) The Contractor shall give advance notification to the Contracting Officer of any proposed subcontract hereunder which (i) is on a cost, cost-plus-a-fee, time and material, or labor-hour basis, or (ii) is on a fixed-price basis exceeding in dollar amount either \$25,000 or five percent (5%) of the total estimated cost of this contract.

(b) In the case of a proposed subcontract which (i) is on a cost, cost-plus-a-fee, time and material, or labor-hour basis and which would involve an estimated amount in excess of \$10,000, including any fee; or (ii) is proposed to exceed \$100,000; or (iii) is one of a number of subcontracts under this contract with a single subcontractor for the same or related supplies or services which, in the aggregate are expected to exceed \$100,000; the advance notification required by (a) above shall include:

(1) a description of the supplies or services to be called for by the subcontract;

(2) identification of the proposed subcontractor and an explanation of why and how the proposed subcontractor was selected, including the degree of competition obtained;

(3) the proposed subcontract price, together with the Contractor's cost or price analysis thereof;

(4) the subcontractor's current, complete, and accurate cost or pricing data and Certificate of Current Cost or Pricing Data when such data and certificate are required, by other provisions of this contract, to be obtained from the subcontractor; and

(5) identification of the type of contract to be used.

(c) The Contractor shall not, without the prior written consent of the Contracting Officer, place any subcontract which (i) is on a cost or cost-plus-a-fee basis, or (ii) is on a fixed-price basis exceeding in dollar amount either \$25,000 or five percent (5%) of the total estimated cost of this contract, or (iii) provides for the fabrication, purchase, rental, installation or other acquisition, of any item of industrial facilities, or of special tooling having a value in excess of \$1,000, or (iv) is on a time and material or labor-hour basis. The Contracting Officer may, in his discretion, ratify in writing any such subcontract; such action shall constitute the consent of the Contracting Officer as required by this paragraph (c).

(d) The Contractor agrees that no subcontract placed under this contract shall provide for payment on a cost-plus-a-percentage-of-cost basis.

(e) The Contracting Officer may, in his discretion, specifically approve in writing any of the provisions of a subcontract. However, such approval or the consent of the Contracting Officer obtained as required by this clause shall not be construed to constitute a determination of the allowability of any cost under this contract, unless such approval specifically provides that it constitutes a determination of the allowability of such cost.

(f) The Contractor shall give the Contracting Officer immediate notice in writing of any action or suit filed, and prompt notice of any claim made

against the Contractor by any subcontractor or vendor which, in the opinion of the Contractor, may result in litigation, related in any way to this contract with respect to which the Contractor may be entitled to reimbursement from the Government.

(g) Notwithstanding (c) above, the Contractor may enter into subcontracts within (ii), or, if the subcontract is for special tooling, within (iii), of (c) above, without the prior written consent of the Contracting Officer if the Contracting Officer has, in writing, approved the Contractor's purchasing system and the subcontract is within the limitations of such approval.

(h) The Contractor shall (i) insert in each price redetermination or incentive price revision subcontract hereunder the substance of the "Limitation on Payments" paragraph set forth in the appropriate clause prescribed by paragraph 7-108 of the Armed Services Procurement Regulation, including subparagraph (4) thereof, modified to omit mention of the Government and reflect the position of the Contractor as purchaser and of the subcontractor as vendor, and to omit that portion of subparagraph (3) thereof relating to tax credits, and (ii) include in each cost-reimbursement type subcontract hereunder a requirement that each price redetermination and incentive price revision subcontract thereunder will contain the substance of the "Limitation on Payments" provision, including subparagraph (4) thereof, modified as outlined in (i) above.

(i) To facilitate small business participation in subcontracting under this contract, the Contractor agrees to provide progress payments on the fixed-price types of subcontracts of those subcontractors which are small business concerns, in conformity with the standards for customary progress payments stated in paragraphs 503 and 514 of Appendix E of the Armed Services Procurement Regulation, as in effect on the date of this contract. The Contractor further agrees that the need for such progress payments will not be considered as a handicap or adverse factor in the award of subcontracts.

#### CLAUSES FOR COST-REIMBURSEMENT TYPE RESEARCH AND DEVELOPMENT CONTRACTS

(b) At any time during performance of this contract, but not later than six (6) months (or such other time as may be provided in the Schedule) after acceptance of all of the end items (other than designs, drawings, or reports) to be delivered under this contract, the Government may require the Contractor to remedy by correction or replacement, as directed by the Contracting Officer, any failure by the Contractor to comply with the requirements of this contract. Any time devoted to such correction or replacement shall not be included in the computation of the period of time specified in the preceding sentence, except as provided in (d) below. Except as otherwise provided in paragraph (c) below, the allowability of the cost of any such replacement or correction shall be determined as provided in the clause of this contract entitled "Allowable Cost, Fixed Fee, and Payment," but no additional fee shall be payable with respect thereto. Corrected articles shall not be tendered again for acceptance unless the former tender and the requirement of correction is disclosed. If the Contractor fails to proceed with reasonable promptness to perform such replacement or correction, the Government (i) may by contract or otherwise perform such replacement or correction and charge to the Contractor any increased cost occasioned the Government thereby, or may reduce any fixed fee payable under this contract (or require repayment of any fixed fee theretofore paid) in such amount as may be equitable under the circumstances, or (ii) in the case of articles not delivered, may require the delivery of such articles, and shall have the right to reduce any fixed fee payable under this contract (or to require repayment of any fixed fee theretofore paid) in such amount as may be equitable under the circumstances, or (iii) may terminate this contract for default. Failure to agree to the amount of any such increased cost to be charged to the Contractor or to such reduction in, or repayment of, the fixed fee shall be deemed to be a dispute concerning a question of fact within the meaning of the clause of this contract entitled "Disputes."

(c) Notwithstanding the provisions of paragraph (b) above, the Government may at any time require the Contractor to remedy by correction or

replacement, without cost to the Government, any failure by the Contractor to comply with the requirements of this contract, if such failure is due to fraud, lack of good faith or willful misconduct on the part of any of the Contractor's directors or officers, or on the part of any of his managers, superintendents, or other equivalent representatives, who has supervision or direction of (i) all or substantially all of the Contractor's business, or (ii) all or substantially all of the Contractor's operations at any one plant or separate location in which this contract is being performed, or (iii) a separate and complete major industrial operation in connection with the performance of this contract. The Government may at any time also require the Contractor to remedy by correction or replacement, without cost to the Government, any such failure caused by one or more individual employees selected or retained by the Contractor after any such supervisory personnel has reasonable grounds to believe that any such employee is habitually careless or otherwise unqualified.

(d) The provisions of paragraph (b) above shall apply to any corrected or replacement end item or component until six months after its acceptance.

(c) The Contractor shall make his records of all inspection work available to the Government during the performance of this contract and for such longer period as may be specified in this contract.

(f) Except as provided in this clause and as may be provided in the Schedule, the Contractor shall have no obligation or liability to correct or replace articles which at the time of delivery are defective in material or workmanship or otherwise not in conformity with the requirements of this contract.

(g) Except as otherwise provided in the Schedule, the Contractor's obligation to correct or replace Government-furnished property which is property in the possession of or acquired directly by the Government and delivered or otherwise made available to the Contractor shall be governed by the provisions of the clause of this contract entitled "Government Property."

(2) In the foregoing clause, the words "Task Order" or other appropriate designation may be substituted for the word "Schedule," as appropriate.

#### 7-402.8 Subcontracts.

(a) Subject to the instructions set forth in (b) below, and except as provided in (c) below with respect to contracts without fee with educational and nonprofit institutions, insert the following clause.

#### SUBCONTRACTS (NOV. 1963)

(a) The Contractor shall give advance notification to the Contracting Officer of any proposed subcontract hereunder which (i) is on a cost, cost-plus-a-fee, time and material, or labor-hour basis, or (ii) is on a fixed-price basis exceeding in dollar amount either \$25,000 or five percent (5%) of the total estimated cost of this contract.

(b) In the case of a proposed subcontract which (i) is on a cost, cost-plus-a-fee, time and material, or labor-hour basis and which would involve an estimated amount in excess of \$10,000, including any fee; or (ii) is proposed to exceed \$100,000; or (iii) is one of a number of subcontracts under this contract with a single subcontractor for the same or related supplies or services which, in the aggregate are expected to exceed \$100,000; the advance notification required by (a) above shall include:

(1) a description of the supplies or services to be called for by the subcontract;

(2) identification of the proposed subcontractor and an explanation of why and how the proposed subcontractor was selected, including the degree of competition obtained;

(3) the proposed subcontract price, together with the Contractor's cost or price analysis thereof;

(4) the subcontractor's current, complete, and accurate cost or pricing data and Certificate of Current Cost or Pricing Data when such data and certificate are required, by other provisions of this contract, to be obtained from the subcontractor; and

(5) identification of the type of contract to be used.

(c) The Contractor shall not, without the prior written consent of the Contracting Officer, place any subcontract which (1) is on a cost or cost-

plus-a-fee basis, or (ii) is on a fixed-price basis exceeding in dollar amount either \$25,000 or five percent (5%) of the total estimated cost of this contract, or (iii) provides for the fabrication, purchase, rental, installation, or other acquisition, of any item of industrial facilities, or of special tooling having a value in excess of \$1,000, or (iv) is on a time and material or labor-hour basis, or (v) has experimental, developmental, or research work as one of its purposes. The Contracting Officer may, in his discretion, ratify in writing any such subcontract; such action shall constitute the consent of the Contracting Officer as required by this paragraph (c).

(d) The Contractor agrees that no subcontract placed under this contract shall provide for payment on a cost-plus-a-percentage-of-cost basis.

(e) The Contracting Officer may, in his discretion, specifically approve in writing any of the provisions of a subcontract. However, such approval or the consent of the Contracting Officer obtained as required by this clause shall not be construed to constitute a determination of the allowability of any cost under this contract, unless such approval specifically provides that it constitutes a determination of the allowability of such cost.

(f) The Contractor shall give the Contracting Officer immediate notice in writing of any action or suit filed, and prompt notice of any claim made against the Contractor by any subcontractor or vendor which, in the opinion of the Contractor, may result in litigation, related in any way to this contract with respect to which the Contractor may be entitled to reimbursement from the Government.

(g) Notwithstanding (c) above the Contractor may enter into subcontracts within (ii), or, if the subcontract is for special tooling, within (iii), of (c) above, without the prior written consent of the Contracting Officer if the Contracting Officer has, in writing approved the Contractor's purchasing system and the subcontract is within the limitations of such approval.

(h) The Contractor shall (i) insert in each price redetermination or incentive price revision subcontract hereunder the substance of the "Limitation on Payments" paragraph set forth in the appropriate clause prescribed by paragraph 7-108 of the Armed Services Procurement Regulation, including subparagraph (4) thereof, modified to omit mention of the Government and reflect the position of the Contractor as purchaser and of the subcontractor as vendor, and to omit that portion of subparagraph (3) thereof relating to tax credits, and (ii) include in each cost-reimbursement type subcontract hereunder a requirement that each price redetermination and incentive price revision subcontract thereunder will contain the substance of the "Limitation on Payments" provision, including subparagraph (4) thereof, modified as outlined in (i) above.

(i) To facilitate small business participation in subcontracting under this contract, the Contractor agrees to provide progress payments on the fixed-price types of subcontracts of those subcontractors which are small business concerns, in conformity with the standards for customary progress payments stated in paragraphs 503 and 514 of Appendix E of the Armed Services Procurement Regulation, as in effect on the date of this contract. The Contractor further agrees that the need for such progress payments will not be considered as a handicap or adverse factor in the award of subcontracts.

(b) In paragraph (a) of the foregoing clause, the percentage and amount set forth therein may be revised downward only in accordance with Departmental procedures. In paragraph (c) of the foregoing clause, the percentage and amount set forth in (ii) thereof may be varied, the dollar amount set forth in (iii) may be increased, and, in (i), (iv), and (v) thereof, dollar amounts not in excess of \$10,000 may be established below which the prior written consent of the contracting officer need not be obtained, in accordance with Departmental procedures.

(c) In contracts without fee with educational institutions, insert the following paragraph in lieu of paragraph (c) of the clause set forth in (a) above and change (iii) in paragraph (g) to (iv).

(c) The Contractor shall not, without the prior written consent of the Contracting Officer, place any subcontract which (i) is on a cost or cost-plus-a-fixed-fee basis, or (ii) is on a fixed-price basis exceeding in dollar amount either \$25,000 or five percent (5%) of the total estimated cost of this contract, or (iii) provides for the construction, purchase, rental, installation, or other acquisition of nonseverable industrial facilities, or (iv) provides for the fabrication, purchases, rental, installation, or other acquisition, of any item of

either (A) severable industrial facilities having a value in excess of \$1,000 or the amount, if any, specified in the Schedule or Task Order, whichever is the lesser, or (B) special tooling having a value in excess of \$1,000, or (v) is on a time-material or labor-hour basis, or (vi) has experimental, developmental, or research work as one of its purposes. The Contracting Officer may, in his discretion, ratify in writing any such subcontract; such action shall constitute the consent of the Contracting Officer required by this paragraph (c). (JUL. 1962)

In the foregoing paragraph (c), the percentage and amount set forth in (ii) thereof may be varied and, in (i), (v), and (vi) thereof, dollar amounts not in excess of \$10,000 may be established below which the prior written consent of the contracting officer need not be obtained, in accordance with Departmental procedures. In (iv) thereof, the \$1,000 limit may, in the discretion of the contracting officer, be decreased where it is determined to be in the interest of the Government, in view of such circumstances of each particular contract, as, for example, the nature of the contractor's operations, previous experience with the contractor on comparable procurements, the accounting and purchasing systems of the contractor, accounting and supply systems of the procurement activity, and the capability of the procuring activity to effect close surveillance of the contractor's purchasing and accounting practices. Also, in the discretion of the contracting officer, the cumulative total of such acquisitions of severable industrial facilities may be limited to a stated dollar amount or an amount equal to a stated percentage of the estimated cost beyond which the contractor will be required to obtain written consent of the contracting officer for any additional acquisitions of such facilities. With respect to special tooling, the \$1,000 limit may be increased.

7-402.9 *Utilization of Small Business Concerns.* In accordance with the requirements of 1-707.3(a), insert the clause set forth therein.

7-402.10 *Termination.* In accordance with the requirements of 8-702 and 8-704, insert the appropriate contract clause.

7-402.11 *Disputes.* In accordance with the instructions in 7-203.12, insert the clause set forth in 7-103.12.

7-402.12 *Renegotiation.* In accordance with the requirements of 7-103.13, insert the appropriate contract clause set forth therein.

7-402.13 *Buy American Act.* In accordance with the requirements of 6-104.5, insert the contract clause set forth therein.

7-402.14 *Convict Labor.* In accordance with the requirements of 12-202, insert the contract clause set forth in 12-203.

7-402.15 *Walsh-Healey Public Contracts Act.* In accordance with the requirements of Section XII, Part 6, insert the contract clause set forth in 12-605.

7-402.16 *Work Hours Act of 1962—Overtime Compensation.* In accordance with the instructions of 12-303, insert the clause set forth therein.

7-402.17 *Nondiscrimination in Employment.* In accordance with the requirements of 12-802, insert the contract clause set forth therein.

7-402.18 *Officials Not To Benefit.* Insert the contract clause set forth in 7-103.19.

7-402.19 *Covenant Against Contingent Fees.* Insert the contract clause set forth in 7-103.20.

Representative GRIFFITHS. Do you have a question?

#### STATUS OF BROOKLYN NAVY YARD

Senator JAVITS. I thank you, Madam Chairman.

I wanted to ask the admiral one word about this Brooklyn Navy Yard. Is it a fact that right now you have no forecast for the Brooklyn Navy Yard, really? The Secretary told us it was under study. I just wanted to know from the point of view of the operating service itself whether we could get any idea as to what is likely to happen in that area.

#### STUDY BEING MADE OF ALL NAVY AND PRIVATE YARDS

Admiral SCHOECH. Senator Javits, I can of course confirm what Secretary McNamara said regarding the study that we now have in



progress regarding all of our Navy yards, and it is too early in this study to provide you or this committee any information that I believe would be valuable to you.

Senator JAVITS. May I make a suggestion to you, also? I think we ought to know—and after you give us the factors, your forecast on private shipyards as well—because that is also an important factor to it.

Admiral SCHOECH. Yes, sir. As you, I think, already know, this study includes not only public yards, but private yards also.

#### NEED FOR LONG-RANGE CONVERSION PLANS

Senator JAVITS. The only other point I would like to suggest to you is this: picking up my suggestion to the Secretary this morning in our discussion, which I thought was very fruitful, consideration ought to be given, at one and the same time when you consider these plans, to long-range conversion plans as well. For example, my Subcommittee on Manpower of the Labor and Public Welfare Committee has just issued a report which indicates a very interesting experience in Japan about the conversion of naval shipyards to other uses, manufacturing uses, as a matter of fact, of a most interesting character.

Senator Douglas's observations about what happened at Decatur, Ill., are very pertinent; also the possibility, which I would like to put on the record and ask you to explore, of the establishment of local community councils to deal in an organizational sense, a local community coordinating council, with the counterpart in your activity in the community. In short, I hope very much that the Departments will direct their attention in a very specialized way to what happens after them.

I want very much to see the Brooklyn Navy Yard continued. We would be less than realistic, however, if in your study we did not invite your attention to every phase of this very grave problem; and that is what I am doing.

Admiral SCHOECH. Thank you, Senator Javits.

Senator JAVITS. Thank you, Madam Chairman.

Representative GRIFFITHS. Mr. Curtis will inquire.

#### PROJECT 60

Representative CURTIS. Admiral, are you participating in this Project 60 that Secretary McNamara mentioned?

Admiral SCHOECH. Yes, sir.

Representative CURTIS. How recently has this come about? Is this brand new, or have you had this in operation for a while?

#### PILOT STUDY IN PHILADELPHIA AREA

Admiral SCHOECH. No, sir. The studies with regard to Project 60 have been going on now for more than a year. I think you are aware that we have set up a pilot area in Philadelphia, and this is just now starting; and from this pilot operation we and the Secretary expect to get information that will guide us and him in how this will be set up throughout the United States.

Representative CURTIS. I think this is one of the most significant things that has happened in some time. I am sure you are going to gain tremendous information and suggestions of how to beef up the relationships in following contracts through.

#### IMPORTANCE OF ENGINEERING DRAWINGS

I have one other specific question. Senator Douglas called the attention of Secretary McNamara to this factor of engineering drawings and better written specifications. Does that assume any major proportion in your program of advance procurement planning? Will you comment on the significance of this?

Admiral SCHOECH. It certainly does. It is a major part of our advance procurement planning. This matter of technical data has been given major consideration not only at our service level, but also by Secretary McNamara, and particularly by his Assistant Secretary for Installations and Logistics, Mr. Tom Morris, who is in the room today. He is coordinating this between us gentlemen that you see here this morning in uniform. Actually, last Saturday we had a 3½-hour meeting on it to get coordinated. We are having a 3-day meeting I believe in Aberdeen, Md., in about 2 or 3 weeks.

This gives you an idea, sir, of the emphasis that the Department of Defense is placing upon this.

#### BREAKOUT PROGRAM DEPENDENT ON DRAWINGS

Representative CURTIS. In order to move through on the breakout program, the essence of it is getting your drawings and specifications and paying attention to that area.

#### SURPLUS PROPERTY IN NAVY

I have another question. Do you keep lists of the surplus property generated from year to year; and, if you do, what is the picture in the Navy?

Admiral SCHOECH. Are you speaking of installations particularly, or are you speaking of materials?

Representative CURTIS. I am talking about any thing, really. In other words—as I questioned General Colglazier—I am concerned about methodology, your technique of checking your own system, or as I threw out the vulgar phrase, a garbage-pail operation. I mean the concept of looking to see what surplus is generated, with the knowledge that of course you are going to generate surplus.

On the other hand, this is a very important method for finding out—ringing the circuit, as it were—where your system might have fallen down, or where it needs improvement. I am really concerned about whether you have formalized this as a method of constant check.

Admiral SCHOECH. First, let me make a general statement, sir.

Representative CURTIS. Yes.

Admiral SCHOECH. That is, that we have the matter of efficient utilization of installations and materials constantly under review. Now, specifically, let me say that there is a very stringent annual review of the area in which you are speaking; and this annual review

is, of course, incident to the budget, because each one of these installations, each one of these systems that we are speaking of here, requires money to operate every year, and we put it through a very fine screen at our level, at the service level.

It again goes through a fine screen at the Secretary of Defense level, and at the Bureau of the Budget. And I don't have to tell you, sir, what a fine screen it goes through here in the Congress.

#### PROCUREMENT PRACTICES AND SURPLUSES

Representative CURTIS. Yes, but there are usually the original procurement practices and the purchases. I am looking for a method of checking back on what you have done. I am suggesting that one way of doing it is, at a high level, looking over your surplus property lists. I hasten to say this, of course. Part of this means a constant looking at inventory in relation to it, because when we first started, I think in 1959, the military generated \$8 billion in surpluses. However, we must remember that was partly a drive to get the inventories down to a more realistic level. But once that has been accomplished, then, of course this becomes a checkpoint.

I don't believe that the services are using this, frankly. I may just not know what you are doing, but I have not seen indications that this is used as a technique. Maybe it isn't a good one. I think it is.

Admiral SCHOECH. We think it is a good one, too; and I want to assure you that it is being used and, in my judgment, it is being used very effectively. Before we ask for a budget item, we must naturally review the inventory very carefully, and we have to substantiate the inventory to our budgetary review levels, our own Secretary, of course, and the Secretary of Defense's level, too. And if we are over in our inventory—

Representative CURTIS. I am not getting through, and I don't usually get through on this subject to witnesses. It makes me believe that this is not being used as a methodology. I am not talking about your additional procurements. I am talking about, as I described it, the way a mess sergeant looked in the garbage pail to see whether there was good utilization, whether they were overbuying, or whether they were overusing.

In other words, I am using some of the horrible examples that have been publicized. For example, I have forgotten how many thousands of electric hair clippers were excessed, but it was obvious somebody hadn't done a very good job of procuring in the beginning. My suggestion would give a top officer in charge of this an opportunity to ring the circuit, and find out what was wrong in the system.

Sometimes it is just human error, which we are always going to have. Sometimes, though, it shows up that we do not have very good procurement practices. That is what I am talking about, and I won't dwell on it further, except to again make the point that, hopefully, in a routine operation, in your methodology, you would do this instead of congressional committees coming along and pulling some of these things out from time to time and getting a lot of undue publicity on it. The examples sound exaggerated and it is unfair to pull them out of context, but if you were using this as a checkpoint, I think you would find that a very neat way of constantly improving your system.

Admiral SCHOECH. Without belaboring the point, I wouldn't say at all that our system is near perfect, nor perfect, naturally. However, I do think that we have a reasonably good system along the lines of which you were speaking. It is my judgment that we do. However, we certainly have some mistakes once in a while. We find, I think, most of them ourselves; but quite frequently the committees of Congress and the GAO find them, much to our embarrassment. But you know what our program is to correct these deficiencies.

Representative CURTIS. My overall comment is, lest anyone take any criticism out of context, you people are doing a tremendous job and it is a most difficult job, and my desire is only to try to improve it if we can.

#### STANDARDIZATION OF SHOES—SAVINGS

Chairman DOUGLAS. Admiral, I too think you are doing an excellent job. I hope you will forgive me if I raise what may seem to you a microscopic point, but one which has a certain degree of importance, and that is the report as of December 19, 1963, of the General Accounting Office stating that an unnecessary expense of \$158,000 a year was being incurred because the Navy was refusing to discontinue using brown dress shoes and would not adopt the black dress shoe used by the Army, Air Force, and Marine Corps.<sup>1</sup> Has that criticism been met in the 4 months since the General Accounting Office made this report?

Admiral SCHOECH. I believe, Mr. Chairman, that the shoes which you speak of are being eliminated from our procurement lists, and those who desire to wear them must go out and order and buy them on their own.

Chairman DOUGLAS. Buy them on their own?

Admiral SCHOECH. Yes, sir.

Chairman DOUGLAS. Then this economy is being effected?

Admiral SCHOECH. Yes.

Chairman DOUGLAS. Do you agree that it will save about \$158,000 a year?

Admiral SCHOECH. That is the information that we have. I assume, Mr. Chairman, that those figures are approximately correct.

Chairman DOUGLAS. Congratulations again. I am sure that step must have been taken only after a very severe struggle.

Admiral SCHOECH. Thank you, Mr. Chairman.

Chairman DOUGLAS. The next witness is Lieutenant General Gerrity, Deputy Chief of Staff, Systems and Logistics.

#### STATEMENT OF LT. GEN. T. P. GERRITY, U.S. AIR FORCE, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS

General GERRITY. Good morning, Mr. Chairman.

Chairman DOUGLAS. I congratulate you on a very fine combat record.

#### COST REDUCTION PROGRAM—AIR FORCE

General GERRITY. Thank you, sir. Mr. Chairman, I understand that you would like to just get a few highlights from me of the Air Force, and, while I have a 30-minute statement, I will restrict myself to the highlights.

<sup>1</sup> See staff report, 1964, pp. 67 and 86.

## SPARE PARTS MANAGEMENT

Our story here is basically one of the Air Force's progress over recent years in spares management and its impact on the cost reduction program. Actually, as you know, we have a large organization. The Air Force Logistics Command that manages our overall logistics program has some nine air materiel areas and a specialized depot for the storage and reclamation of aircraft. Over the years, we have reduced the number of people in this operation from 212,000 in 1956 to some 148,000 as of now. In addition to that, we have reduced our spares inventory value from about \$19½ billion in 1950 to about \$11.6 billion in 1963.

During this period we have been modernizing our logistics system and making it a little less in depth, a little less in breadth, and more responsive timewise to our demands worldwide. And, as you know, we supply customers on a worldwide basis, including all of our Air Force installations, the military assistance program for foreign countries, and many contractors who do our specialized repair for us. Our total business runs on the order of 23 million requisitions a year, which involve some 100 million accounting transactions. That doesn't tell you a great deal, except that it is a big business and it runs on a large-scale basis.

We ship some 730,000 tons of material a year, which is down from some 2 million tons a year in 1950. This is because we are again reducing the depth of support and using a more responsive system of shipment of supplies worldwide. Incidentally, we use premium transportation for some of our higher cost items. We find that for every dollar we spend for premium transportation we save about \$10 in inventory investment.

In 1958 we had some \$23½ billion in aircraft, missiles, communications, and electronic systems. These are the end items. That grew in 1964 to a level of \$37 billion, or an increase of some 56 percent in the value of our equipment inventory. The spares we use to support that inventory started out in 1956 at about \$9½ billion and remained relatively level through 1963. We hope to further reduce it to about \$8 billion in 1964.

## 60-PERCENT REDUCTION IN SPARE PARTS PROCUREMENT

In 1958 we were procuring spare parts, both initial and replenishment, at the rate of approximately \$2 billion a year to support our program. That has been reduced in 1964 to a level of \$770 million, a reduction of 60 percent, while at the same time the equipment inventory value rose by 56 percent.

Representative CURTIS. May I ask one question on that point?

General GERRITY. Yes, sir.

Representative CURTIS. Was this being somewhat supplemented by fabrication of parts in your own command?

## CAUSES OF EXCESSES

General GERRITY. No, sir; it was not. We haven't changed our practices in that respect, but it was brought about through many management improvements in our system, which I will speak about very

briefly. Mr. Curtis, you mentioned earlier your interest in our being able to analyze and see the mistakes we made in the past which brought about long supply or excess, and we found through many analyses we made that obviously excess occurs for many reasons.

#### PHASING-OUT OF END ITEMS

One is obvious, that as you phase an end item out of the inventory the spare parts that are associated with that end item become excess. As you know, we have done that. For example, we take a very critical look at the spare parts that remain as a result of that to see if we can use them for other purposes. For example, in the case of the B-47 and F-86, we are phasing those aircraft out of our inventory, and have been for some time. As a result of that, some \$400 million worth of spare engines and installed engines became excess. We didn't throw those on the junk pile or just sell them as surplus. We reclaimed some \$100 million of parts from those engines to use in our repair lines for the remaining engines in the system. This was a saving of about 25 percent of the original engine costs. Interestingly enough, some of those parts we reclaimed are beyond our current operating year's requirements, so they show up as long supply, but we will eventually use them.

This is the sort of activity that we have underway to utilize excess or long supply. Of course, long supply is created by many reasons, as I said. A change in operations, such as a decision to fight in place with the B-52's and the KC-135's, or, in other words, operate from their permanent bases instead of staging overseas, exceeded some \$75 million worth of war reserve material that we had held inviolate for that purpose.

#### MODIFICATION OF EQUIPMENT

A similar operational decision caused us to modify the B-52's to give them a low-level capability, a purpose for which they weren't originally designed. In the process of modifying them, we took out some of the systems that were no longer useful, and they as well as their spare parts became immediately excess to our needs. Here again we tried to apply this materiel for other uses, and we did get some return.

#### INTERCHANGE PROGRAM

Incidentally, we have an interchange program now with the other services. In 1963 we transferred out of our long supply inventory to the Army and Navy some \$135 million worth of supplies, and, we saved some money in the Air Force by utilizing some of the long supply of the Army and Navy in the amount of \$65 million. So we are working hard on this problem.

Of course, there is still some human error involved, but with the greater precision of our modern system, I think we have made some real strides.

#### INCREASED EFFECTIVENESS

I told you the story of our reduced spares dollars to support this increased fleet, a 60-percent reduction in spares, while we had an increase in fleet inventory value to some \$37 billion, or 56 percent. There's another real punchline along with that: during the same 5-year

period our combat readiness improved. In 1958 we had some 13 percent of our aircraft deficient for spare parts. In the last 3 years we have kept that figure below 5 percent, a substantially increased readiness rate of our combat aircraft as well as our support aircraft.

#### IMPROVEMENT PROGRAM

I think the committee would be interested to know, just briefly, a few of the things that we have done that have brought about this substantial reduction in spare requirements to support our combat inventory. I will state briefly that it was accomplished by three major actions.

#### AUTOMATIC DATA PROCESSING

First, over the years we have installed and improved automatic data processing equipment at our major depots and at many of our bases. Through that we have gotten a more responsive system of finding out what our situation is on a real time basis, how many supplies we have, how many are in repairable status, how many are at the bases, and what our needs are for repair as well as for new procurement. Along with this more responsive system permitted by automatic data processing, we have made some real strides in improved accuracy, which have enabled us to substantially reduce the depth of support.

#### PERSONNEL TRAINING PROGRAM

As we were doing this, of course, we made our system of support more complex. And we needed to improve the training of our people. We have therefore had a very high-priority training program going on for the last several years. For example, in 1963 we had some 800 graduates of middle management courses, varying from 6 weeks to a 2-year master's degree course at civilian universities, get this level of management training in order to cope with this new and complex system. This year we expect to graduate some 1,400 people from these various institutions. At the inventory manager level, where the real job is done, we have some 3,500 people, who control our assets. These people are about 85 percent ladies who have been in the business for years. They are about GS-7 grade level, earn some \$6,000 a year. We have had a very intensified training program with these people to upgrade them.

#### INDUSTRIAL ENGINEERING TECHNIQUES

We have used industrial engineering techniques to plot out their job effort and their standards, and we have used PERT-type charts to help them see clearly how to do the job. We have also made many reviews at their desk, using top-level people.

For example, depot managers, major generals, have gone to the desk of the inventory manager to look at some 20 items a week to see how they are doing on their job. I can tell you that taking that amount of interest in these people at the working level has been a tremendous aid in getting them to do their jobs in a much improved fashion.

We are spending about 100,000 hours of training each year to improve our capability and training in this area. In addition to that, where we spend money for additional supplies or for spare parts, we

have increased the level of review to successively higher levels. Of course, all the depot commanders get into their total picture and review this situation on a monthly and even daily basis. Twice a year my staff, as well as the staff of General Bradley at the Logistics Command, goes out and reviews 80 percent of the dollar value of items that we procure. It is through this higher level review and the interest thus demonstrated that we have been able to get more precise in our judgments as to what we really need to buy. We have taken some risks. We are risking on the low side.

#### HOPE TO SHORTEN PIPELINES

We are hoping that with the responsive system we have now, the more accurate system, that we can shorten our pipelines and get along with still less. We will make some mistakes doing it and we may have to buy a little more and adjust upward where experience indicates that is necessary.

I would like to give you one example of some of the improvement that has been made over the years in the engine business, which is really one of the high-value items we have in the Air Force. We have some engines, J-57's, used in the B-52, that cost about a quarter of a million dollars apiece. Our initial spares estimate was for a 43-percent spare requirement for 1,052 engines. As we gained more experience through our actuarial system of measuring and controlling the engines in the inventory, which we do by serial number, we reduced our requirements and utilized some of the engines we had already bought by installing them on new aircraft. We also terminated some additional engine production and reduced the spares requirements to 15 percent.

We used that experience on our B-52H, which uses a turbofan engine similar to that used by the airlines and reduced spare engines required to a 13-percent level. Through this, reduced engine requirements saved some \$166 million for that weapons system alone. It is interesting to note, although we don't have comparable systems between the airlines and the Air Force, that the airlines are buying spare engines for their airplanes at the rate of about 25 percent. So we have made some real gains here.

#### IMPROVED READINESS

Representative CURTIS. This was not at any sacrifice of combat readiness?

General GERRITY. No, sir. As a matter of fact, we improved readiness through improvement of our component reliability, by reducing overhauls, and periodic maintenance of our aircraft, and this is a part of the effort that has brought about this decreased requirement for spares.

For example, by decreasing the amount of periodic inspection and the parts consumed because of that, we increased the number of aircraft in the operational-ready inventory of SAC by some 45 B-52's and some 31 additional KC-135's. We used the man-year saving that we gained to improve the total readiness of the force and make more aircraft available on alert. With that effort we have come up from about a third of the fleet that are standing alert to one-half right now. These



are gains that we have made which have both improved our combat readiness as well as reduced the supply support required, so that today, Mr. Chairman, we have what I would call a modern, highly responsive logistics system in the Air Force.

I don't mean to say we are satisfied, but I think that we have improved greatly over the years. Our emphasis is placed, first, on high reliability of our systems and components, shortened pipelines for the repair and transportation of items, improved maintenance practices to reduce overhaul requirements and parts consumption, a high-speed communications system throughout the world and a supply system itself which reacts quickly to the demand wherever it occurs in our worldwide system.

Through these actions we are supporting our weapons with much less depth of supply today. The result of this is more clearly dramatized when you look at what we are doing on some of our newer weapons that are just coming into the inventory, where we are buying spares in many cases at less than 50 percent of the rate at which we were buying previously.

Sir, this sounds like a success story, but I want to assure you that, while we are pleased with the progress that has been made, we are looking for every opportunity we can find in our system to reduce the dollars required for support. We know that within any given budget, to the extent that we can lower the dollars required for support, we can improve our capability to meet the critical modernization needs to maintain this force ready not only now but in the future.

Thank you very much, Mr. Chairman.

(The complete statement follows:)

#### SPARES MANAGEMENT AND COST REDUCTION

Mr. Chairman, members of the committee, the cost reduction effort in the Air Force is a two-pronged program—reduce costs and increase the combat effectiveness of the force. I am pleased to report to you that spares management in the Air Force has made consistent strides forward. This area of management has provided the largest single contribution to the cost reduction program. In order to give you an idea of the magnitude of this management effort I would like to cover a few brief facts about our general organization and some vital statistics.

In the USAF there are nine general depots and an organization at Tucson, Ariz., that stores and reclaims excess aircraft. These nine general depots procure, store, and issue spare parts and also provide the inservice engineering and heavy maintenance for all the weapon systems of the Air Force.

Since 1958 we have eliminated five oversea depots and one U.S. unit from this complex. As you are aware a recent decision eliminates the Rome Depot in 1967. There are 148,000 people assigned to these depots today and about 11 percent of these are military. The worldwide supply inventory which these depots manage amounted to \$11.6 billion at the end of fiscal year 1963. I will address my remarks to the \$9 billion technical portion of that inventory that supports aircraft, missiles, and communications-electronics systems. The remainder includes munitions, clothing, fuels, subsistence, and similar materiel, much of which is controlled by an integrated manager outside the Air Force.

Depot customers are located throughout the free world and include all types of Air Force organizations, commercial contractors doing specialized maintenance for the Air Force, and allied governments supported under the mutual assistance program.

These customers submit over 23 million requests per year for supplies and spare parts creating close to 100 million accounting transactions. As our logistic reaction capability has improved we have encouraged the use of priority requisitions as a means of reducing both the range and depth of stocks at each customer location. Expedited shipment has been substituted for worldwide dispersal of stocks. Shipments to customers amounted to 730,000 tons in fiscal

1963. Premium transportation is used for a portion of these shipments since cost comparisons indicate that rapid movement of limited assets is far cheaper than investment in large quantities of high-cost stocks.

The progress in spares management can be illustrated by a series of charts. In this chart I have plotted the capital investment value of our combat and support equipment. Included are all the aircraft, missiles and major COMMELS system. As the capital investment has increased, about 56 percent from 1958 to 1964, the complexity also has increased.

The value of the spare parts inventory required to support those weapon systems has remained relatively stable through the end of 1962, with a sizable reduction at the end of 1963, and a further reduction projected for end 1964. Of most importance is the significant reduction in annual spares procurement programs required to replenish and maintain this inventory. From a level just under \$2 billion in fiscal year 1958, the fiscal year 1964 procurement program is \$770 million. I would like to reemphasize that the investment in combat and support weapon systems increased 56 percent from 1958 to 1964 while our supply support costs have been reduced by 60 percent. During this same interval we have increased the combat capability of the fleet. In 1958 some 13 percent of the aircraft were deficient for spare parts. For the last 3 years we have been able to keep this rate below 5 percent.

The majority of the inventory of spares and the bulk of the annual spare parts procurement program are associated with the aircraft program. Since the aircraft portion of the program is in such preponderance, I will deal primarily with aircraft spares management. However, the basic management actions are equally applicable across all portions of the inventory.

Within the aircraft spares inventory it is also useful to look at the segmentation of that inventory: The portion required for operations, that which is economically worthwhile to retain for future use, and finally the excess portions are shown separately in this chart.

This segmentation is a dynamic and fluid condition and is affected by almost every decision in either the operational or logistics field. The total of economic retention and excess stock is called long supply. In the economic retention area are those stocks for which we can foresee a use in periods beyond the operating year. These periods of future use are limited to 5 years, or the specific aircraft program if it is less than 5 years. The excess segment includes those items which are above the economic retention level and are generally applicable to aircraft phasing out of the inventory.

Long supply results from either operational or logistic actions or a combination of both. For example, with the operational decision to phase down the F-86 and B-47 aircraft programs, the engines required for support of these aircraft were reduced. We reclaimed \$102 million in parts from excess engines for a recovery rate of about 25 percent. Since we reclaimed spare parts that would be required to support engine overhaul during the remainder of the aircraft program, a portion of these assets show up as economic retention.

Operational decisions affect the modern weapon systems also. In the case of the B-52 we modified the aircraft to provide a low-level combat capability not originally designed into the aircraft. The replacement of certain aircraft systems in this modification created long supply. Further, our war readiness stocks for the B-52 were converted to long supply by an operational decision to "fight in place" rather than deploy.

In the logistics area, we have taken concerted action to improve components reliability and extend the service life of components about which I will have more to say. Also, as I indicated earlier, faster logistics reaction has decreased the depth and range of stocks required. These last two actions are, of course, the result of doing a better job of logistics management. Items that do not wear out, when bought under one criteria, become long supply when management can tighten that criteria at a later date. More importantly, improved logistic management reduces the requirement for operating budgets. I will point out by examples this dual impact of logistic management improvements, but shall devote primary emphasis to the dramatic reduction in annual procurement of spare parts in the face of an increased investment in combat systems.

Concentrated efforts have occurred at every segment of the spares management function. These efforts can be traced to three major programs. First, we are utilizing the most modern automatic data processing equipment to handle the millions of transactions. Second, we are improving the capability and skill of our people at every level of the decisionmaking process. Finally, we have

emphasized successively higher levels of review of those actions involving expenditure of dollars and assets. I would like to devote a little time to each of these programs.

Maximum utilization of data processing equipment has been a prime objective of the Air Force. The millions of accounting transactions form the basis for projecting future requirements. The Air Force pioneered in the use of mechanical data processing in 1948. Progress has kept pace with computer technology.

By early 1963 all inventory control functions had been converted to the second generation of high-speed, large-scale computers. All depots were standardized on the IBM 7080 equipment. Complete interchange of data is now possible. Complementing the depot computer program, 97 major bases have been equipped with various types of small-scale data processing equipment. We will install standard computers at 145 of the largest bases during the next 18 months. With today's data processing equipment at both bases and depots linked by a communications system, we have the capability to take action immediately on a request for a spare part. We account centrally for assets at multiple locations and ship from the point of storage nearest to the requesting activity. Logistic reaction time is reduced. Possibly most important, the products of the computer provide up-to-the-minute, concise information upon which a decision can be made.

As the capability of the computers increased and the data being produced covered every facet of the supply problem with current information, it became increasingly important to insure that our personnel were educated and trained to handle the information being produced. The basic action involved education at all levels. In the middle management level, lieutenants, captains, majors, and equivalent civilian grades, we have concentrated on formal education programs by the Air Training Command and Air University. These courses vary from 6 weeks in specialized areas to 2 years at civilian institutions at the master's degree level. In fiscal 1963, 800 people graduated from these courses and in fiscal year 1964 we expect 1,400 graduates.

The critical task in training is with the inventory manager as we term the 3,500 people who spend the money and control the assets. These inventory managers are all civil service employees, generally GS-7, with an annual salary of about \$6,000. About 85 percent are female. The decisionmaking process of the inventory manager has been carefully plotted by industrial engineers. The trained middle management personnel have provided detailed on-the-job training in these decision steps. We conduct an annual testing program that has become increasingly demanding. During calendar 1963, 3,300 tests were administered and only 2,250 people were able to meet our standards. Over 100,000 training hours were used to increase the proficiency of those who didn't meet our standard.

Additionally, we have started a program which we refer to as "know your item." This is an effort to get the inventory manager, the maintenance technician, and the procurement specialist to become familiar with the functional characteristics of the items. Even the engineers benefit from this rather basic approach. We display the actual items on a board and the people involved can examine the article as well as look at drawings, specifications, and pictures. This rather simple approach has already produced substantial savings in item consolidation and substitution. This program and others enabled us to reduce by 250,000 the number of items in the Air Force inventory during 1963.

Management control is insured by a series of progressively higher levels of review of the spares management actions at the depots. At the working levels we hold reviews of requirements projections, support effectiveness, and disposal actions.

In these reviews, the inventory manager is again graded on her effectiveness and knowledge. Further training is directed where required. Each depot commander conducts his own personal review. As an example, each depot commander personally reviews the requirements projections for 20 items per week. He makes this review, not in his office, but at the desk of the inventory manager. His personal efforts and interest have been invaluable in creating an atmosphere of maximum support at minimum cost. Members of the logistics command staff, together with my staff, conduct formal reviews of requirements computations at least twice yearly at each depot. These reviews are chaired by a general officer and include supply, maintenance, procurement, and engineering personnel. At these reviews 80 percent of the dollar value of procurement actions intended over the next 6 months are examined in detail. Finally, we have encouraged

the review of our requirements computations by staff members of the Department of Defense and Bureau of the Budget and have been pleased with the assistance given by this level of review.

Since our inventory is so large, both in numbers of items and in dollar value, I would like to cite a few examples of management actions within each of the major and somewhat different segments.

In the aircraft engine area we have an inventory of almost \$2 billion, yet we expended in fiscal year 1963 only \$36 million to buy new engines. New engines are bought only to support the new aircraft entering the system and in quantities that complement the scheduled delivery of aircraft. Every engine, both installed and in the spares inventory, is accounted for by serial number. We term our engine management system an actuarial one, in that we record all the life history of each engine. Our actuarial system differs from that used by insurance companies only to the extent that we never pay the policy benefit. We just overhaul the engine and start it on another life cycle. Since many of these engines cost a quarter of a million dollars, our first efforts with computers were in this area. The data we have collected makes it possible to adjust life expectancy on a timely basis, using more precise data. Engine information is updated daily and the computer products are summarized for the engineers and maintenance technicians as well as the supply manager.

I would like to relate what we have been able to do with engines for the B-52. In 1958, our best estimate for the J-57 Pratt & Whitney jet engine used on the B-52 F and G was a requirement of 43 percent spare engines to those installed in the aircraft, or 1,052 engines. As data became available and we were able to project more accurate life expectancy, we diverted 457 of these engines for installation in production aircraft and terminated contracts for 271 engines. Prior to final delivery of the B-52G, our spare engine requirement was 15 percent of the installed engines. At \$228,000 unit cost, this represented a difference of \$166 million. More significant is the fact that we took a calculated risk and reduced the spare engine to installed engine factor to 13 percent for the final model—the B-52H. The engine for the B-52H is, by the way, a turbofan jet engine which is almost identical with that used by the airlines. Although our systems of maintenance and operations are somewhat different, it is interesting to note that the airlines buy 25 percent spare engines. We believe our engine management system speaks for itself. It is the product of an integrated effort of our engineers, maintenance technicians, transportation, and procurement experts all working with the supply manager.

The recoverable spares constitute the major portion of the dollar value of aircraft spares inventory, \$4.6 billion at the end of fiscal year 1963. Since these items can be repaired and used over and over again, we replaced only a very small percentage during fiscal year 1963 with an expenditure of approximately \$100 million. These are the items which contribute most of that long supply. As a rule, they don't wear out and any operational change, engineering change, or logistic management improvement generally produces a reaction that causes them to fall into long supply.

Our management problem with recoverables is essentially the same as with engines. The range and quantity of these items makes it impossible to account for them by serial number. We project the usage of each item against the flying hours planned for the item. We collect historical data on the rate of maintenance removals in the field and the reasons for removal. We also maintain data on the repairs made at field level and the complete overhauls required at the depot level. All of this information, including future programs is introduced into the data processing equipment to make a computation of requirements and to control distribution of the assets.

It is in this area that individual actions by item managers are of prime importance. I would like to cite some examples of these management actions. First, in trying to determine the service life of the combustion chamber for the TF-33 turbofan engine, an item manager was researching data on the combustion chamber for the J-57 engine for comparison purposes. She noticed a striking similarity between the engineering drawings for the two engines and requested some assistance from value engineering personnel assigned to her depot. In fact, the chambers for the two engines were identical except for the swirl guides which establish the airflow entering the chamber. By replacing the swirl guide, combustion chambers on hand in long supply are being modified to meet the TF-33 requirement. Modification is costing \$40 per chamber versus \$290 for a new chamber. Since the wearout of these chambers is rather high, we estimate a

cost avoidance of almost \$4 million over the next 3 years. This action, of course, returns to the operating portion of the inventory assets which were in the economic retention portion.

A somewhat similar situation occurred in the vanes for the first-stage turbine for another jet engine. These vanes come in nine different contours and are installed by groups at time of overhaul. In analyzing total stock position on all vanes, the inventory manager found he was in long supply on some contours and in a buy position on others. He requested assistance from our value engineers, and a hot-die process was developed to reshape the contour of the long supply vanes. Cost of the process is \$3.90 against the new procurement cost of \$28. Cost avoidance was \$1.2 million. Again long-supply inventory was transferred to meet operating requirements.

A word at this point about value engineering. The personnel assigned to this function at each depot are qualified engineers with aeronautical-mechanical, and industrial degrees, many at the master's level. They work for the Director of Procurement. They look at all procurements of sizable dollar quantities. Cost reductions from this effort during the first half of fiscal year 1964 were \$35 million or a rate of over a million dollars a week.

The final major segment of the aircraft spares inventory involves the large number of repair parts which are used in the overhaul and maintenance of the expensive recoverable components and the engines. The inventory valuation is only 20 percent of the total yet almost three-fourths of our annual expenditures for spares occur in this area. In fiscal year 1963, slightly over \$300 million were expended in this area. We manage these items on a wholesale basis. Usage is not generally related to future flying hour programs but can be statistically related to past trends. Our computers are programed to utilize 4 years of historical data to determine a daily issue rate. Using individual item production leadtime and a safety level based on this production leadtime, we provide a weekly notice on those items requiring a management decision on stockage. The computer compares the economics of the cost to order with the cost to hold the item in the inventory and computes the most economical investment in stock.

Since so many of our dollars are expended in this area, we do not rely solely on a pure machine product. Although individual item savings are sometimes small, in total they contribute significantly to that reduction in annual dollar programs of 60 percent that I described earlier. Each inventory manager is encouraged to utilize ingenuity and inquisitiveness to save dollars. Our value engineering program and our item familiarization program also enter into this management area. As an example, we were able to utilize a common automotive seal costing \$2.97 in replacing a complex magnetic seal costing \$56.47 for annual savings of about \$55,000.

One of the major factors in reducing spares requirements over the past several years has been a critical examination of our maintenance practices. We refer to this as the maintenance improvement program and base self-sufficiency. Our objectives have been to increase component reliability, increase the amount of repair done at the base or using level, and to decrease the mandatory inspection and removal intervals on items installed on aircraft.

Our approach was to utilize the ingenuity of the airman, to give him a challenge—if you think you can repair it give it a try—and finally to record what he is doing and give him help where he needs it. Each unit repairs what its skill and equipment will permit. And where skill and equipment are lacking, we try to provide it. This program covers all segments of the spares inventory. For example, jet engines for some of our older aircraft are being maintained in the field with no depot overhaul scheduled. The key to the management and supervision of this worldwide decentralized program is the maintenance data collection system which also uses electronic data processing.

As a result of this program we have been able to reduce the assets required to support repair lines since more of the work is accomplished in the field. We have reduced the transportation costs associated with interchange of reparable and serviceable items between users and depots. And because we repair and return many of the items to service at the point of use we have been able to reduce serviceable stock levels. With many of our units now programed to "fight in place" this program has materially increased our combat potential. It has also reduced our need for inviolate stocks held solely to meet a wartime requirement.

You will recall that our investment in combat equipment has increased 56 percent to a level of \$37 billion by the end of this fiscal year. This translates to a steadily increasing repair requirement. Obviously these increasing mainte-

nance workloads would normally put greater pressures on our depot facilities and tend to increase their manpower needs. Our improved maintenance and base self-sufficiency programs serve to offset this trend by increasing the scope and quantity of repair capability at base level. This has allowed our depots to meet the urgent and continuing maintenance workload generally within current facility and manpower capability. There is a continuing need to modernize the tooling and equipment in these facilities to meet the workload of today's complex systems.

As I explained, our efforts have been maximum utilization of the field level maintenance capability, and extension or deletion of mandatory inspection intervals and emphasis on component reliability. As an example, this program reduced the maintenance requirements on B-52/KC-135 fleet by 4,400 man-years.

This reduced maintenance requirement equated to 45 additional B-52 and 31 KC-135 operationally available aircraft. By utilizing this additional maintenance manpower, SAC was able to increase the number of aircraft on alert status by a significant factor.

Another area worthy of mention is the standardization of logistic management systems throughout the Department of Defense. The Air Force, along with the other services, is benefiting from the standardization program. As an example, the interservice supply support program designed to exchange assets between the departments has been of significant value both in reducing our requirements for dollars and in reducing our excess stocks. In fiscal year 1963 we transferred \$135 million in assets to the other services and received from them assets worth \$65 million. We are working actively with the other services and the Defense Supply Agency to link our data systems even more closely and expand this program further.

In summary, Mr. Chairman, today we have a modern highly responsive logistic system. Our emphasis placed on (1) high reliability of our systems and components; (2) shortened pipelines for repair and transportation; (3) improved maintenance practices to reduce overhaul requirements and parts consumption; (4) and a high speed communications system and supply system to react quickly to demands in the United States and overseas. Through these actions we are supporting our weapons with much less depth of supply. The result is clearly evident in the reduced cost of support for our newer weapon systems.

For example, the requirements for the various instruments for the F-4C came to slightly over \$20 million this year. Management decisions in anticipation of improvements in supply, maintenance, and component reliability reduced this by almost 50 percent. We believe that we can support the aircraft with this reduced procurement.

A similar situation has occurred in the missile program. The guidance package for the MINUTEMAN costs \$255,000. Initial computations showed a requirement for 331 units or about \$85 million for spares support. To reduce this requirement we eliminated any serviceable stock level. Next we reduced the repair cycle requirements. These 2 actions reduced the requirement to 157 units based on 29 days' repair flowtime. We then took a further calculated risk and have bought only 133 in anticipation of further improvement in reliability. These reductions amount to \$50 million in support.

In fiscal year 1963, the Air Force contributed over one-half of the total cost reductions in the Department of Defense. We have made creditable progress in the first half of fiscal year 1964 toward the achievement of the larger goal for this year. Spares management savings are reflected in the 2 largest separate segments of the 25 areas included in the cost reduction program.

Our cost reduction goals for fiscal year 1965 are just as ambitious as the previous ones and our emphasis is being broadened beyond the materiel area to cover every phase of Air Force activity. Our focus is on positive management accomplishment to get more results from every dollar and improve combat effectiveness.

In conclusion, spares management in the Air Force is an integrated logistics effort. The complexity of modern combat weapon systems requires a great deal more than a simple accounting record of asset transfers. The Air Force logistics system is, in some respects, just as complex as the equipment which it is designed to support. We regard logistics management as a highly skilled profession and our approach is a professional one aimed at all facets of the problem.

We emphasize tough management and a cost-conscious approach to decision-making. We provide this management with the most modern equipment available to control the logistics system. We insist that the people working in the logistics field be given the best training possible. The art of logistics management is being refined by the Air Force to the point where it is approaching a science of logistics.

We have a strong incentive to minimize our support costs. We realize that within any given budget, this will increase our capability to meet the critical need to modernize our combat forces.

Chairman DOUGLAS. Thank you, General. I think you have done an extremely fine job, a very difficult job in the newest of the services. There are other factors and costs perhaps, but these are considered foremost.

Mrs. Griffiths.

Representative GRIFFITHS. I would particularly like to commend you on spare parts. I think this is one of the most difficult of all areas, and I think you really are to be congratulated if you have reduced the quantity of spare parts that you need for support. I also think that you should consider raising the salaries of those women on inventory and to a new grade level.

General GERRITY. Mrs. Griffiths, we would very much like to do this, and we may well be able to as we raise the skills of these people and they are able to demonstrate performance. I would like to see them rewarded. They are people that are on the firing line.

#### SUPPORT FROM DSA AND GSA

Representative GRIFFITHS. With a GS-14 for 80 percent of them, you might get a little start. I would like to ask you also what kind of support you get from DSA and GSA.

General GERRITY. We are getting very excellent support from both of those agencies.

#### USE OF SUBS BY PRIME CONTRACTOR

Representative GRIFFITHS. And I would like to ask you, finally, what percentage of your procurement is in the hands of the primes; that is, you put 100 percent procurement in their hands and how much of it do they subcontract? What percentage? Do you know? If you don't, will you supply it?

General GERRITY. We are averaging on our major weapons about 50 percent subcontracting. We encourage subcontracting. We like to see these major primes go to the specialized industry to get the jobs done that they can do best. So at the outset, even before we contract, we ask our contractors who are bidding to give us a make-buy breakdown of the system that they are proposing to sell to us, and we approve this make buy.

#### CONTROL OVER SUBS

Representative GRIFFITHS. How great is your control over the subs?

General GERRITY. Well, it varies, Mrs. Griffiths. If you are on a straight fixed-price contract we really have little control. We expect the normal commercial pressures to require the contractor to do what is best in good sound American practices to get the item built for the

lowest cost. Where we have cost-type contracts, or cost-plus-incentive-fee contracts, or other contracts of that type, we do exercise varying degrees of additional control.

## SWITCHING OF SUBS

Representative GRIFFITHS. If a prime switches subs, do you review the reasons?

General GERRITY. Normally we do, on this latter type of contract.

Representative GRIFFITHS. And what have you found to be the reasons?

General GERRITY. There hasn't been a great deal of this occur, but sometimes a prime will become involved with a subcontractor that just can't perform.

Representative GRIFFITHS. Is there anyone in your organization who is authorized to tell a prime to switch subs?

General GERRITY. No, no; this is basically the prime's responsibility. He may have to have our approval in some circumstances, but it is his responsibility to do the job.

Representative GRIFFITHS. I would like to make clear, Mr. Chairman, that from this gentleman's testimony it is obvious that 50 percent of the impact of the purchasing of the Air Force is out of control of the Air Force. In my judgment, we should at some point recommend that there be greater concern with the subs.

Thank you very much.

General GERRITY. Mrs. Griffiths, if I may expand on that just a little bit, I don't mean to say that our subcontracting is completely out of the Air Force control. As I say, we are interested in the contractors going to the specialized industry which can do the job best, so we are interested in the broad subcontract base. We are also interested and have a great influence over making sure these contractors complete those items, and we are showing greater interest in that, day by day, so that we get true competitive subcontracting, so that we do have a degree of control over it, and it is not completely outside the Air Force.

Representative GRIFFITHS. I think you should have some sort of control so that you are really confident of the reasons for the switching. I might say I have just come from a hearing to which I listened and in which I did not participate, where the engineers permitted an inspector to change a sub, literally to rewrite the specifications. Now the effect was that there was a loss of some \$2 or \$3 million, but that wasn't the main effect. The danger to the lives of everyone landing upon a particular runway was incredible; and I might say it could have been the President of the United States, it could have been a Cabinet member, it could have been the Chiefs of Staff.

It was exceedingly dangerous, and the thing that impressed me was that there really wasn't very much review over this man's actions. And I again point out from your own statement that 50 percent of the impact of your purchasing is almost placed outside your control, so that I think that it is a point that really should be considered.

General GERRITY. I certainly do think so, Mrs. Griffiths. It is a point, and of course I am not familiar with the specific case involved here. This is the reason I say we don't stand aside completely, but there



is a fundamental involved here, that it is the prime contractor doing the subcontracting. It is his responsibility, basically, and, while we consult with him and at times intervene if the case warrants it, it is still his basic responsibility to manage. If we took over the management we might as well make the contract direct from the Air Force to the subcontractor.

Representative GRIFFITHS. General, I want to make myself clear. The case I am worrying about is where you do review, how do you review the intervention. In these instances I have given you, the services did intervene.

General GERRITY. I am afraid I don't know of that particular instance, and I don't think as a matter of practice we do anything like that.

Representative GRIFFITHS. In the instance I gave the Secretary, in this instance I have just given you, the service intervened and the result was disastrous.

Chairman DOUGLAS. Mr. Curtis.

#### COMPETITIVE BIDS DEPENDENT ON ADEQUATE DRAWINGS AND SPECS

Representative CURTIS. I think this probably emphasizes the importance of engineering drawings and specifications, where you are really going to move, I hope, under a very balanced operation and try to get components on an advertised basis. Although your prime may have to be negotiated, you could still break out and have a lot of advertised bids. But the checkpoint, as I see it, is adequate engineering drawings and specifications. Would you tend to agree with that, General?

General GERRITY. Yes, sir. It is of prime importance, and we are emphasizing that in our endeavor to get larger breakouts. And, of course, along with that we must emphasize the qualifications of the respective bidders.

#### PROJECT 60—CONTRACT ADMINISTRATION

Representative CURTIS. Which leads me to emphasize again what I think is so meritorious a task, Project 60, that Secretary McNamara mentioned. I am reading from his statement:

Another noteworthy consolidation effort, known as Project 60 is designed to achieve uniform contract administration policies and procedures for such functions as checking production progress, inspection and acceptance of materiel, evaluation of contractors' ability to perform under Government contracts, reviewing and paying contractors' bills, on-the-spot analysis of cost proposals, etc., etc.

And if, as I asked the Secretary, you are going ahead with it, is this kind of training program that you have referred to in other areas in your inventory? To me, that is the key of recognizing that this area is a profession. Maybe you could create a corps out of these people, get an esprit de corps, but you must recognize that this is a very difficult art and put the proper training, emphasis, and responsibility there. I think this is the key area which we need to build up.

Incidentally, does the Air Force participate in Project 60 yet, or is the testing still being done elsewhere? What have you done along these lines?

General GERRITY. Well, the Air Force has participated with the other services in this project from its very outset. As a matter of fact, an Air Force man, Colonel Sowle, actually headed up the study program, and we are now participating in the Philadelphia test and we will participate further in the activities which will lead to the final organization on a countrywide basis.

#### NEED FOR TRAINING

Representative CURTIS. General, I hope I am not putting words in Secretary McNamara's mouth—I don't think anyone really could—but is there an emphasis on training? I hope there is.

General GERRITY. It is certainly going to be a very important part of the entire project.

Representative CURTIS. I hope so.

General GERRITY. Your problem now is that each of the services has somewhat different practices. In order to get everybody together to one standard policy and procedure, there must of necessity be some fundamental training done.

Representative CURTIS. Thank you.

Chairman DOUGLAS. Mr. Miller?

Senator MILLER. General, I am personally acquainted with some of the procedures the Air Force has been following for several years. I just want to add my commendation to those of many others that the Air Force has received for the programs that you people have been putting into effect. I know that some of the Air Force programs which turned out to be highly successful have been adopted by the Defense Department for other services, and it is refreshing to me to see that you have not been sitting on your laurels, but you are continuing to go ahead and do the best job you possibly can.

I think that this has helped greatly in enabling the Secretary of Defense to present the very fine picture that he gave the committee earlier this morning.

General GERRITY. Thank you, sir.

#### REPORT ON FOLLOWUP OF GAO REPORTS

Chairman DOUGLAS. General, our staff has prepared an index and synopsis of the 120 reports which have been issued by the General Accounting Office since we had our last meeting last year and the index is contained between pages 55 and 71 of the staff report.<sup>1</sup>

I will ask that you be given a copy of this. Then the synopsis of the reports follows on the following pages about 80 pages. I don't want to overburden you with paperwork, but since you probably dealt with these in connection with the Assistant Secretary of Defense, Mr. Morris, if it would not be too much trouble I wonder if you would submit to the committee and for the record reports on what you have done about criticisms and recommendations of index No. 9 given on page 56, index No. 10, No. 12, index No. 16, index No. 17, index No. 18, index No. 21, 43, 45, and then index No. 44 on page 61, index No. 58 on page 63, index No. 66 on page 64, index No. 71 on page 64 that dealt with the Falcon missile, index No. 75, some two Capehart

<sup>1</sup> See staff report, 1964.

projects, index 83, page 66, index 85, page 66, spare parts purchases from the Hughes Aircraft Co., index 92, page 67, index 94, page 115, index 96 and index 97, and index 99 on page 68, indexes 103, 105, and 106 on page 69, and indexes 109, 112, and 114 on page 70.

Would that be too much trouble? I imagine you have made reports on these for the Secretary of Defense.

General GERRITY. Yes, sir, we have. You would like to have a brief of these things for the committee?

Chairman DOUGLAS. Yes, as to what has actually been done in dealing with these criticisms and recommendations. Would that be satisfactory?

General GERRITY. I will certainly be pleased to furnish that.  
(The material subsequently furnished follows:)

DEPARTMENT OF THE AIR FORCE,  
OFFICE OF THE SECRETARY,  
Washington, May 16, 1964.

Hon. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
Congress of the United States.

DEAR MR. CHAIRMAN: During the hearings on the "Impact of Government Procurement on the Economy," held by your subcommittee on April 16, 1964, you requested that General Gerrity provide for the record a statement on what the Air Force has done with respect to specific GAO reports. These reports are listed in appendix III of the joint committee print entitled "Background Material on Economic Aspects of Military Procurement and Supply—1964."

Actions taken by the Air Force concerning each of the reports are contained in the attached summation. The cited numbers in the attachment correspond with those set forth in the committee print.

Your interest in Air Force matters is appreciated.

Sincerely,

PERRY M. HOISINGTON II,  
Major General, U.S. Air Force,  
Director, Legislative Liaison.

(The first nine cases listed below all pertain to pricing problems under Air Force contracts, have therefore been grouped, and are covered, by a consolidated statement immediately following index No. 96.)

#### TITLE OF REPORT

- Index No. 58. Report on unreasonably high prices paid for nickel cadmium aircraft storage batteries under negotiated fixed-price contract AF 01 (601)-22629 with Sonotone Corp., Elmsford, N.Y., Department of the Air Force.
- Index No. 71. Excessive costs included in prices for Falcon missile components purchased from Avco Corp., Crosley Division, Cincinnati, Ohio, by Hughes Aircraft Co., Culver City, Calif., under a negotiated contract, Department of the Air Force.
- Index No. 85. Report on overpricing of spare parts purchased from Hughes Aircraft Co., Culver City, Calif., under fixed-price incentive contract AF 33(600)-38280.
- Index No. 10. Report on review of overpricing of target seeking systems for the Bomarc missile under Department of the Air Force negotiated contract AF 33(600)-38098 with the Boeing Co., Seattle, Wash.
- Index No. 92. Report on overestimated costs included in prices negotiated for modification of aircraft engine test stands under fixed-price contracts with Space Corp., Dallas, Tex.
- Index No. 109. Report on overpricing of B-58 aircraft bomber recording systems by Melpar, Inc., Falls Church, Va., on fixed-price purchase order 509 with General Dynamics Corp., Fort Worth, Tex.

Index No. 16. Report on examination of rentals charged for equipment owned and operated by Morrison-Knudsen Co., Inc., Boise, Idaho, a subcontractor under Department of the Air Force prime contract AF 33(600)-29717 with Western Electric Co., Inc., New York, N.Y., in construction of the White Alice communication system in Alaska.

Index No. 52. Report on the increased price for ballistics computers resulting from excessive estimated material costs under Department of the Air Force contract AF 09(003)-34097 with Servo-Mechanisms, Inc., El Segundo, Calif.

Index No. 96. Report on pricing of selected spare parts for ARC-34 communication equipment under Air Force fixed-price contracts negotiated with the Magnavox Co., Fort Wayne, Ind.

The GAO found faulty pricing and recommended that an appropriate refund be obtained in the above cases.

We agreed in principle with the GAO recommendation that a price adjustment be sought. Regarding index case Nos. 58, 71, and 85, an appropriate price adjustment has been obtained.

Efforts are being made to obtain a price adjustment under index case Nos. 10, 92, and 109.

Under index case No. 16, both the prime contractor and subcontractor refused to agree to a price adjustment and the case has been referred to the Justice Department for action deemed appropriate by that agency.

Under index case No. 52, the Air Force exhausted every effort to obtain a refund, but the contractor was adamant in his refusal. There being no evidence on which to base legal proceedings, the Air Force efforts were restricted to seeking a voluntary refund.

Index case No. 96 was referred to the Justice Department and a satisfactory settlement of \$1,150,000 was obtained.

(The following two cases pertain to procurement procedural matters, and are covered by a consolidated statement immediately following index No. 103.)

#### TITLE OF REPORT

Index No. 99. Report on Unnecessary Cost Incurred in the Procurement of AN/ARN 21C TACAN Radio Components Through Failure To Accept Option Offer.

Index No. 103. Report on increased costs incurred for ammonium perchlorate purchased during 1961 for solid-propellant missile motors, Department of the Air Force.

In the above cases GAO alleged that procurement procedures were not adequate and that further instructions be issued to the military departments.

Regarding case, index No. 99, the Air Force disagreed with the GAO findings and conclusions and GAO was advised that our present policies and procedures are adequate.

In case, index No. 103, GAO was advised that certain of its recommendations regarding the exchange of information between Government agencies pertaining to the prices being paid for commodities, were impracticable and would not yield the desired results. GAO was informed that for future procurement of ammonium perchlorate, buyers will be required to obtain certain data to preclude excessive prices being paid.

#### TITLE OF REPORT

Index No. 17. Report on payment of insufficient rental by Curtiss-Wright Corp., Wright Aeronautical Division, Wood-Ridge, N.J., for commercial use of Government-owned facilities furnished by the Department of the Air Force.

GAO concluded that because of an unreasonable decision by the Armed Services Board of Contract Appeals, rental paid by Curtiss-Wright was understated and that a settlement agreement entered into between the Air Force and the contractor bars the GAO from legal action.

GAO was informed that the decision of the Board is not considered unreasonable and that the Air Force does not agree that enactment of the Wunderlich Act has changed or expanded the traditional authority of the General Accounting Office to review and audit the financial transactions of the Government. The Air Force further stated that the Wunderlich Act has not curtailed the author-

ity of contracting agencies to enter into agreements. The DOD agrees with the Air Force that the Board's decision was proper.

## TITLE OF REPORT

Index No. 9. Report on review of uneconomical utilization and premature disposal of aircraft spark plugs by the Department of the Air Force.

GAO alleged ineffective utilization and disposition of aircraft spark plugs.

The Air Force concurred and has instituted improved methods of testing, repairing and disposing of plugs. Although GAO made no recommendations in its report, it was stated that the improved methods instituted by the Air Force should result in more effective utilization of existing stocks and should reduce future expenditures for such items.

## TITLE OF REPORT

Index No. 12. Report on followup review of supply management of selected radio communication sets within the Department of the Air Force.

As a result of GAO draft report, the Air Force made a worldwide study of so-called lost AN/TRC radio components, and accounted for \$20 million of such components. GAO acknowledged that Air Force took prompt action and made \$16 million of these components available to Army. GAO does not believe that further expenditure of effort to locate lost assets is warranted. There were no recommendations contained in the GAO draft report.

## TITLE OF REPORT

Index No. 18. Report on review of the excessive cost of leasing compared with buying certain electronic data processing equipment by the Department of the Air Force.

GAO criticized the Air Force for failing to buy EDP machines at reduced prices rather than continuing to lease.

Air Force continuously studies the merits of purchase or lease of EDP in conformance with DOD policy. These reviews have resulted in Air Force purchase of over \$67 million of EDP systems during fiscal year 1964.

## TITLE OF REPORT

Index No. 21. Report on review of realignment of item management responsibilities in the Air Force Logistics Command pursuant to implementation of the Federal cataloging program, Department of the Air Force.

GAO alleged that between 1958 and 1962, management responsibilities for more than 250,000 items in the Air Force supply system were transferred among various item managers and installations in Air Force Logistics Command. That because of lack of orderly procedures, \$9 million of material was lost to management control.

The Air Force concurred and has revised its written procedures, and has installed mechanized systems throughout Air Force Logistics Command. This enables correlation of program changes and item managers receive automatic notification of significant program changes.

## TITLE OF REPORT

Index No. 43. Report on followup review of noncompetitive procurement of aeronautical replacement spare parts in the Department of the Air Force.

GAO alleged that the Air Force interpretation of the ASPR clauses regarding marking of data by contractors was incorrect.

The Air Force disagreed and GAO was advised that Air Force policies and procedures for determining proprietary items are not in error. The Air Force is continuing to make strenuous efforts to increase our competitive posture for procurement of spare parts. Cases were cited in support of the Air Force position that current methods are more workable and economical.

## TITLE OF REPORT

Index No. 44. Report on uneconomical use of parts kits to support depot overhaul activities in the Air Force Logistics Command, Department of the Air Force.

GAO alleged that improvements needed to be made in the management of repair and overhaul parts kits.

The Air Force concurs and has revised regulation AFLCR 65-42, requiring continuous and critical monitoring of this area. All kits involved in specific criticism by GAO were reviewed and corrective revisions have been made.

## TITLE OF REPORT

Index No. 66. Report on overstatement of needs and illegal use of commercial-type vehicles by the Kanto Base Command, Japan, 6,100th Sup-Wing, U.S. Air Force.

GAO alleged that periodic tests of the accuracy of Air Force data used to justify need for pickup trucks on hand needed to be made.

The Air Force concurs and has made such review. Instructions have been issued to all major Air Commands that unofficial use of Government-owned vehicles on a reimbursable basis be discontinued.

## TITLE OF REPORT

Index No. 75. Unnecessary costs incurred because of administrative negligence and poor design in the construction of two Capehart housing projects, Department of the Air Force.

GAO alleged that approximately \$163,000 was or would be spent to correct damage caused by administration negligence or poor design in connection with construction of two Capehart projects by the Air Force at Myrtle Beach, S.C., and Chanute, Ill.

The Air Force denied the existence of negligence or poor design. The Department of Defense agreed with the Air Force and so advised GAO.

## TITLE OF REPORT

Index No. 83. Report on unnecessary procurement of office furniture for use in the Pentagon.

GAO alleged that Air Force made unnecessary procurement of office furniture for use in the Pentagon.

Air Force does not concur. The purchase of the unitized furniture has afforded more work area, better utilization of floorspace, has saved man-hours by improving workflow and all directorates using the furniture have noted an increase in efficiency.

## TITLE OF REPORT

Index No. 94. Report on increased costs resulting from the procurement of spare parts under contracts for related aeronautical equipment, Department of the Air Force.

GAO alleged that the Air Force needed to improve its techniques for screening spare parts buys, so that where spare parts are required for initial support of equipment of a type already in the supply system, procurement can be made more economically directly from manufacturers or suppliers, instead of from the equipment contractor.

As a result of the GAO draft report of April 1963, a training program was given to selected personnel at all air materiel areas. Revisions have been made to manuals, regulations, and operating procedures compatible with the GAO recommendation.

## TITLE OF REPORT

Index No. 97. Report on overbuying and unnecessary overhaul costs resulting from failure of the Air Force to follow the Navy's practice of separating accessories from spare reciprocating aircraft engines.

GAO alleged that considerable savings would result if the Air Force adopted the Navy policy of removing accessories from spare aircraft reciprocating engines.

The Air Force provided a reply to DOD regarding the nude engine concept as it applies to reciprocating engines. On March 21, 1964, DOD requested the Air Force to reexamine the reciprocating engine situation under a format they provided. This study is being conducted by Air Force Logistics Command and is to be completed in the current fiscal year.

## TITLE OF REPORT

Index No. 105. Report on excessive stocks at selected bases of U.S. 5th Air Force in Japan and Korea.

GAO alleged that excess stocks were on hand at certain 5th Air Force bases and that an adequate system of surveillance of base level supply activities needed to be initiated to assure that Air Force procedures result in efficient supply management.

The Air Force concurred and has taken steps resulting in transfer and redistribution of items valued in the millions. The Air Force has also revised procedures under Air Force Manual (AFM) 67-1, including improved reporting techniques.

## TITLE OF REPORT

Index No. 106. Report on ineffective program planning and uneconomical utilization of personnel assigned to the Air Force Reserve recovery program.

GAO alleged that as a result of ineffective program planning by the Air Force, a sizable portion of the reserve recovery squadrons will be of little value to using commands in the event of an emergency.

The GAO recommendations are currently under consideration.

## TITLE OF REPORT

Index No. 112. Report on the uneconomical replacement of vehicles by the U.S. 5th Air Force, Fuchu Air Station, Japan.

GAO alleged there was premature disposal and replacement of M-series vehicles, and that procedures should be established to minimize the possibility of subordinate commands issuing instructions not consistent with established AF policy.

Air Force concurs that there was premature disposal of vehicles, but found that there were mitigating circumstances. Management procedures have been established to provide better controls over allowances, authorizations, and replacement of vehicles.

## TITLE OF REPORT

Index No. 114. Report on deficiencies in administration of Government quarters, messing facilities, and military leave at Dow Air Force Base, Maine.

GAO alleged deficiencies in the administration of Government quarters and in accounting for leave chargeable to military personnel.

Action has been taken to correct each discrepancy noted in the GAO report. Close supervision is being maintained on issuance of certificates of nonavailability of quarters and messes. Certificates of nonavailability of quarters are reconciled daily with bed cards and related records to assure that erroneous certificates are not issued.

## COST REDUCTION PROGRAM—DSA

Chairman DOUGLAS. Thank you very much, sir. Thank you for your work. Now we are very glad to have General McNamara and Vice Admiral Lyle from the Defense Supply Agency. General McNamara, I want to start off by congratulating you for what you have done. You took over a very difficult situation and so far as I can tell, you carried it off with great ability and force and I think the whole country owes you a debt.

We regret though that you are not going to continue, but you apparently have your successor with you. I want to congratulate you on

your fine job and also congratulate your successor, Admiral Lyle, wish him well, and say that if you equal the record of General McNamara you will be doing extremely well.

Representative CURTIS. Mr. Chairman, may I join in that? I feel that very deeply and I certainly want to congratulate General McNamara for what I regard as an extremely difficult job well done and I welcome the admiral into a still very, very difficult task.

Chairman DOUGLAS. You are going to have a hard time to fill General McNamara's shoes, but I hope the shoes will be of the same color.

**STATEMENT OF LT. GEN. A. T. McNAMARA, U.S. ARMY, DIRECTOR, DEFENSE SUPPLY AGENCY; ACCOMPANIED BY VICE ADM. JOSEPH M. LYLE, U.S. NAVY, DIRECTOR-DESIGNATE, DEFENSE SUPPLY AGENCY**

General McNAMARA. I have a choice, Mr. Chairman, dependent upon your time limit, I have a 30-minute statement, or I have a 7-minute summary I could highlight here.

Chairman DOUGLAS. We will print your statement as prepared and then if you will make a summary, we will appreciate it.

(The statement referred to follows:)

**DEFENSE SUPPLY AGENCY PROGRESS REPORT TO SUBCOMMITTEE ON DEFENSE PROCUREMENT OF THE JOINT ECONOMIC COMMITTEE BY LT. GEN. A. T. McNAMARA, U.S. ARMY, APRIL 1964**

Mr. Chairman and members of the committee, I regret to say that this will be my last opportunity to appear before the Joint Economic Committee as the Director of the Defense Supply Agency. This committee has long fostered and encouraged the concept of integrated management of supplies and services within the Department of Defense and the Federal Government. As you know, integrated supply and service management is the purpose for which the Defense Supply Agency was founded and its success is attributable in large measure to the interest and assistance of this committee.

When I was informed by the Secretary of Defense that I would be privileged to make a statement to you today, I reviewed the remarks made to this committee by Secretary Morris last year, and the information that we recently furnished your staff. In view of the availability of this information, I will confine my remarks to those areas I believe to be of primary interest to the committee at this time. (See chart I.) These are:

- (1) An overview of progress made in assuming assigned missions.
- (2) Highlights of our service and supply operations.
- (3) Management of procurement and utilization programs.
- (4) Relationships with the General Services Administration.

The Defense Supply Agency was established upon the sound foundation laid by the single-manager system, which was comprised of defensewide commodity and service managers within the military departments and the Armed Forces Supply Support Council and Center. The Council and the Center were charged with policy coordination, systems development, and the administration of defensewide programs. (See chart II.)

Initially we assumed operational control of eight commodity managers, one service manager, and the defense programs administered by the Armed Forces Supply Support Center, which included cataloging, standardization, surplus disposal, materiel utilization, and coordinated procurement. Since then, we have received a number of additional assignments. These were: electronic supplies, chemical supplies, packaged petroleum, industrial plant equipment management, the Defense Documentation Center, two military clothing factories, household goods storage and movement, and Army Engineers supplies.

We are virtually operational for all assigned missions. The Defense Supply Agency has now emerged as a major element of the defense logistics establishment.



CHART I

**AREAS OF INTEREST**

- **PROGRESS OVERVIEW**
- **OPERATIONAL HIGHLIGHTS**
- **PROCUREMENT and UTILIZATION MANAGEMENT**
- **DSA GSA RELATIONSHIPS**

CHART II

**INITIAL ASSIGNMENTS**

- 8 Commodity Single Managers**
- 1 Service Single Manager**

**DEFENSE PROGRAMS**

- Cataloging
- Standardization
- Surplus Sales
- Material Utilization
- Coordinated Procurement

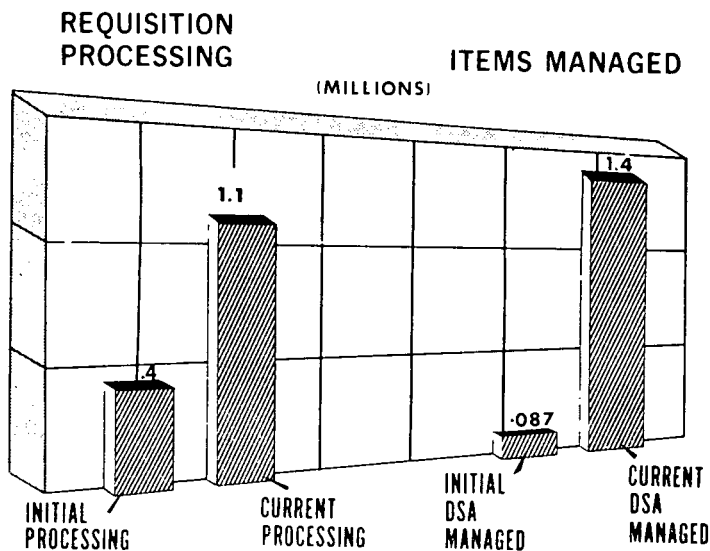
**NEW ASSIGNMENTS**

- Electronics
- Chemical
- Packaged Petroleum
- Industrial Plant Equipment
- Defense Research Documentation
- 2** Clothing Factories
- Household Goods
- Army Engineer Supplies

The assumption of these missions was effected in accord with time-phased plans. For example, when we began operations on January 1, 1962, we were receiving approximately 0.4 million requisitions per month; today, we are averaging more than 1.1 million requisitions per month. Nine out of ten of these requisitions are met from material on hand. The number of centrally managed items has shown an even sharper increase—from 87,000 in January 1962 to almost 1.4 million (1,379,000) at the end of this fiscal year. (See chart III.)

CHART III

## WORKLOAD INCREASE



We have been able to perform assigned missions with fewer people, fewer facilities, a sharply curtailed number of storage locations and reduced inventory investment. We are performing currently assigned missions with 5,300 fewer civilian and military personnel than were identified with the performance of the same missions within the military departments. It is expected that these personnel reductions will amount to 5,675 by June 30, 1964. We have eliminated 29 activities (most of which were of relatively small size) within our Field Establishment. I shall discuss the reduction in the number of storage locations in more detail later. Finally, although we have capitalized a cumulative total stock fund investment of \$2.9 billion, this investment will have been drawn down to \$2.4 billion by the end of fiscal year 1964, principally through sales without replenishment of stocks in long supply. (See chart IV.)

The design of a single streamlined distribution system was one of the most urgent problems confronting the Defense Supply Agency at the time of its activation. We began operation in January 1962 using the separate distribution systems with a variety of procedures established by the separate commodity managers. (See chart V.) At that time, commodities assigned DSA were stored in some 77 major distribution facilities dispersed among the military departments. In lieu of this, we have installed a distribution system indicated, which is comprised of the following principal activities:

(1) Seven principal distribution depots, represented by triangles, stocking a wide range of commodities.

(2) Four specialized support depots, the circles, designed to furnish specialized support in specific areas of supply. In addition, we are stocking a limited range of our commodities in 18 direct supply points for the Navy, represented by squares, designed primarily to provide for the unique need of large volume users such as shipyards and repair facilities.

CHART IV

# RESOURCES



5303 less people



29 activities eliminated



Fewer storage locations



Reduced inventories

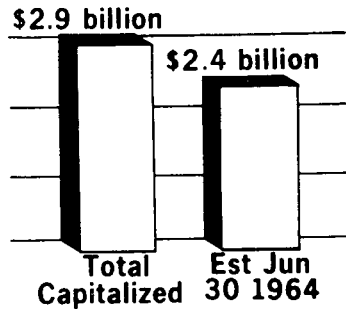
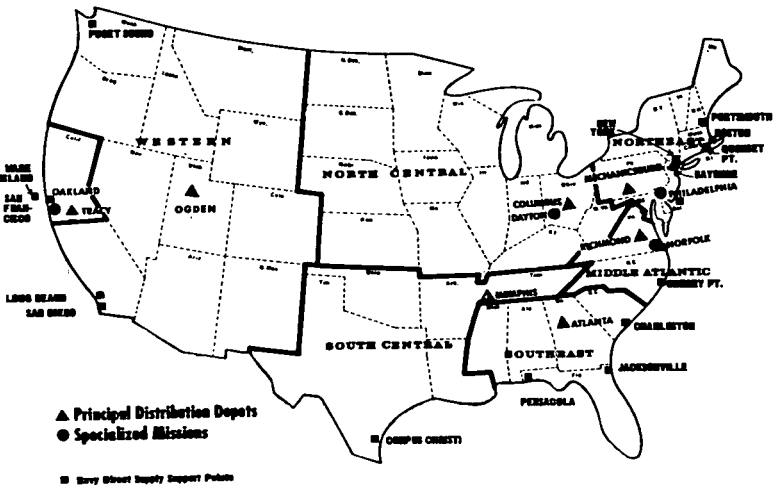


CHART V

## DSA DISTRIBUTION SYSTEM



The design and geographic dispersion of the distribution system provides for achieving two major objectives:

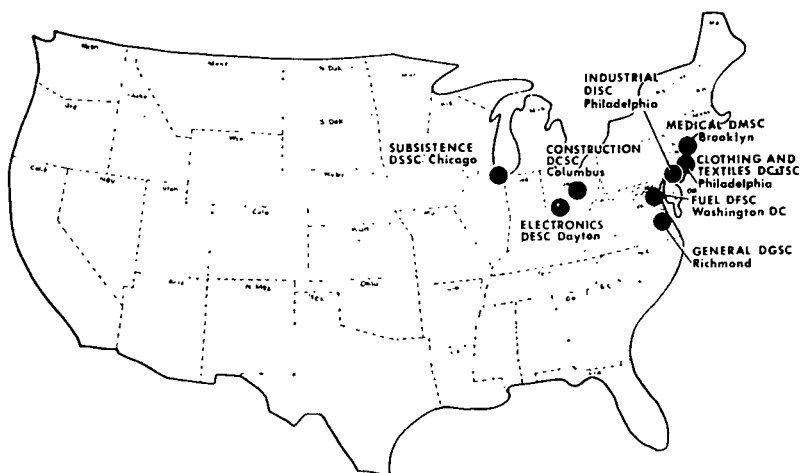
(1) A storage pattern based on the concept of positioning stocks close to the concentrations of military posts and ports of embarkation in the United States.

(2) Consolidation of all requisitioning procedures and stock control functions in the defense supply centers.

While our principal depots typically receive, store, and issue a wide range of commodities, the management of specific commodity groups is centralized at single locations which we call our national inventory control points. These control points are located as indicated in the accompanying chart VI. Each of them receives requisitions from authorized ordering agencies for commodities assigned to it. Each is responsible for maintaining all wholesale inventory accounts, for directing procurement, and for ordering the release of commodities from depots. Each is also responsible for such other related functions as cataloging, standardization, and industrial preparedness planning applicable to the commodities it manages. This, we believe, permits most effective control of total system inventories, insures that demands will draw upon total available assets, and maximizes responsiveness to emergency needs. (See chart VI.)

CHART VI

INVENTORY CONTROL POINTS (ICP)



One of the major but lesser known responsibilities of the Defense Supply Agency is the design and maintenance of assigned defensewide standard logistics systems. A uniform issue priority system, standard requisitioning and issue procedures, and standard transportation and movement procedures are already in being. (See chart VII.) Additional projects under development include:

(1) Specially tailored manuals for use by Defense contractors in the implementation of these systems.

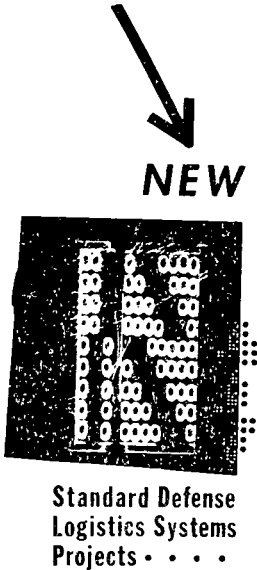
(2) Standard supply reporting and accounting procedures for use by all Defense activities.

(3) Standard item characteristics coding to permit machine processing in cataloging, provisioning screening, and interchangeability and substitutability decisions.

(4) A rapid data routing and addressing center network to expedite logistics data transmission.

(5) A standard system for measuring all elements of supply performance for use by all supply managers within the Department of Defense.

CHART VII



STANDARD PROCEDURES MANUALS  
FOR CONTRACTORS

STANDARD TRANSACTION REPORTING  
& ACCOUNTING PROCEDURE

STANDARD ITEM CHARACTERISTICS  
CODING STRUCTURE

AUTOMATIC DATA ROUTING/ADDRESSING  
CENTERS

STANDARD PERFORMANCE  
MEASUREMENT FOR PRIORITY SYSTEM

As already noted, we started in January 1962 with the management of a relatively small number of items in four commodity areas (clothing, medical, subsistence, and general supplies). Our system has grown in less than 2½ years to include nearly 1,300,000 centrally managed items. The figure will rise to almost 1.4 million items by June 30 of this year. Except for the introduction of new items and the yet incomplete transfer of electronics materiel, the shift of commodity management from the military departments has been for the most part accomplished. The transfer has been made with virtually no disruption in operations and with no loss in capability to respond to emergency demands. For instance, following the recent earthquake in Alaska, DSA had medical materiel moving within 2 hours after receipt of the initial request. The same capability has been reflected in our around-the-clock response to such demands as those stemming from the Cuban crisis, Vietnam operations, and joint military exercises. (See chart VIII.)

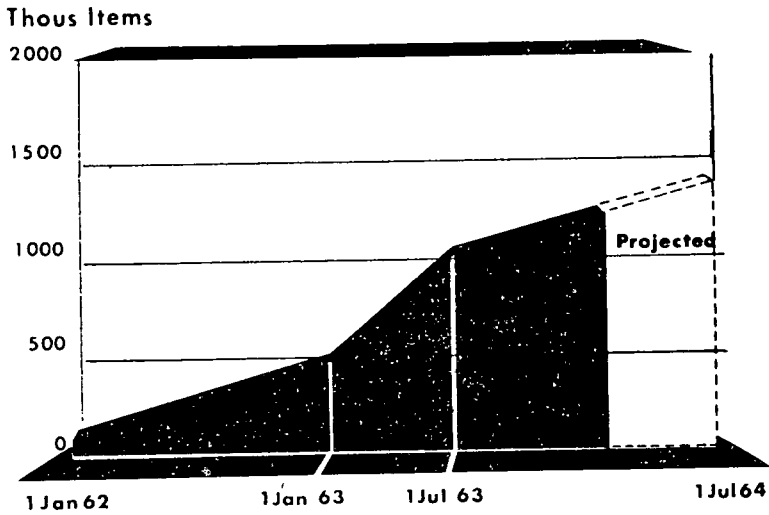
Despite this rapid growth in the number of items managed, significant savings in operation costs and stock fund investment have been achieved. Also, DSA screening has resulted in the decentralization to local management of 199,000 commercially available items, the elimination of 64,000 items from the system, and the transfer of 44,000 items to the General Services Administration.

The Defense Supply Agency acts for the Secretary of Defense in the administration of the Defense-wide cataloging and standardization programs. It is also responsible as a commodity class manager for roughly one-half the total number of items in the Defense system. In both these capacities, we have been vitally concerned with the rate at which new items have been entering the supply system.

For the period 1958 through 1961 the number of active stock numbers in the Defense catalog has been increasing at an average rate of over 150,000 items per year. This rate of increase became even more pronounced during fiscal year 1962 when we experienced an increase from 3.8 million items in June 1961 to 4 million in June 1962—a net growth of approximately 200,000 items or an increase of over 7½ percent. Item reduction programs and emphasis upon preventing the entry of unnecessary new items into the system in which both DSA and the military services have participated appear to have succeeded in reversing the trend. Between June 30, 1962, and February 29, 1964, a net reduction of 48,000 items occurred within the Department of Defense. While gratified by this reversal

CHART VIII

# Growth of ITEM MANAGEMENT

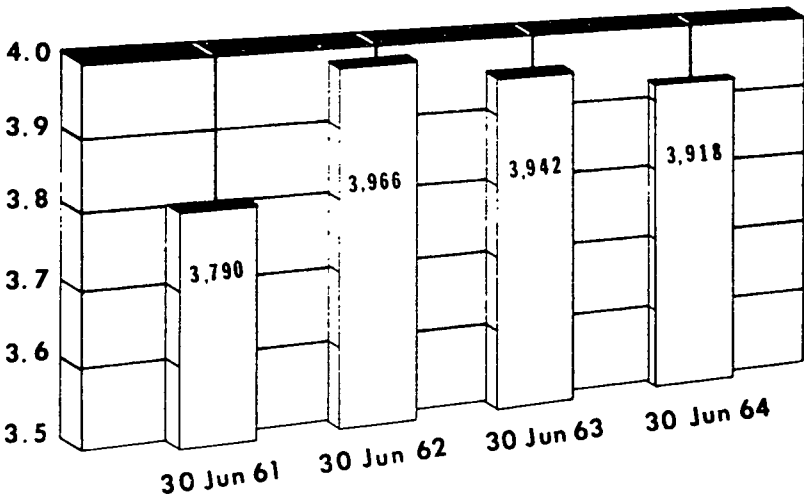


in trend, we are by no means satisfied that we have this problem fully under control. Therefore, additional emphasis and attention is still necessary to reduce further the size of the Federal catalog by controlling the entry of unnecessary items. (See chart IX.)

CHART IX

# DEFENSE CATALOG

(THOUSANDS OF ACTIVE FSN's)



The Office of the Secretary of Defense has recently approved the establishment of an item entry control office within the Defense Supply Agency. This office will play an active role in developing and monitoring the performance of systems and programs and controlling the entry of new items in the Defense system.

Initial studies performed by this office confirm the findings of earlier and less comprehensive studies made by the military services. At the present time, a technical data base adequate for item entry control on a defensewide basis is seriously lacking. A few areas have been identified where it appears that technical data is adequate to institute a test of improved procedures. For an example, the Defense Electronics Supply Center has compiled and systematized technical data on resistors for use in item reduction and item entry control. About 31,000 items are introduced each year in this fast growing commodity class and the file now contains approximately 185,000 active items. The Electronics Center has identified 70,000 of these for elimination; 73,000 are awaiting final decision; and the 42,000 remaining items have been selected for approval by the military services as standard and preferred items. When approved, lists of these items will be furnished to design and provisioning activities to encourage their selection in lieu of new items. These efforts are expected to reduce the rate of entry of new resistor items by about 50 percent in a 2-year period. While this sharp reduction appears to be feasible in this rapidly growing supply class, other commodity areas may not produce similar results. A test program, to include several additional classes at four other locations, and encompassing commodities responsible for about 25 percent of total growth, is expected to provide data for future systems as well as a basis for measurement of results, effectiveness, and potential. (See chart X.)

The Defense Supply Agency is also actively engaged, as an inventory manager, in the simplification and elimination of items in commodity classes assigned to it for management.

By the end of fiscal year 1964, we will have reviewed for essentiality over 25 percent of the items under our management. As a result of this review of 318,000 items, we will have standardized 205,000 and eliminated about 113,000 from the system.

While these results are encouraging, we believe our standardization program, as well as our efforts to control the entry of new items into the system, will become even more effective, as we acquire better technical and performance data applicable to existing items. (See chart XI.)

CHART X

## ITEM ENTRY CONTROL OF RESISTORS (DESC STUDY)

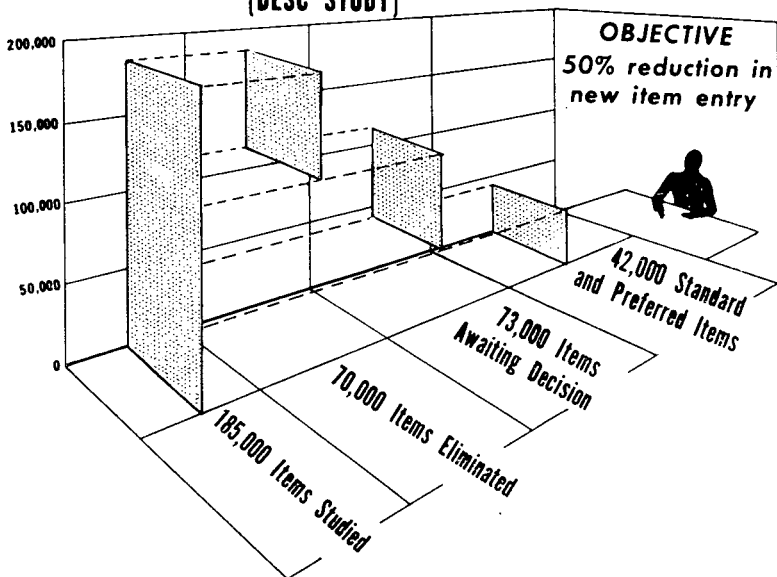
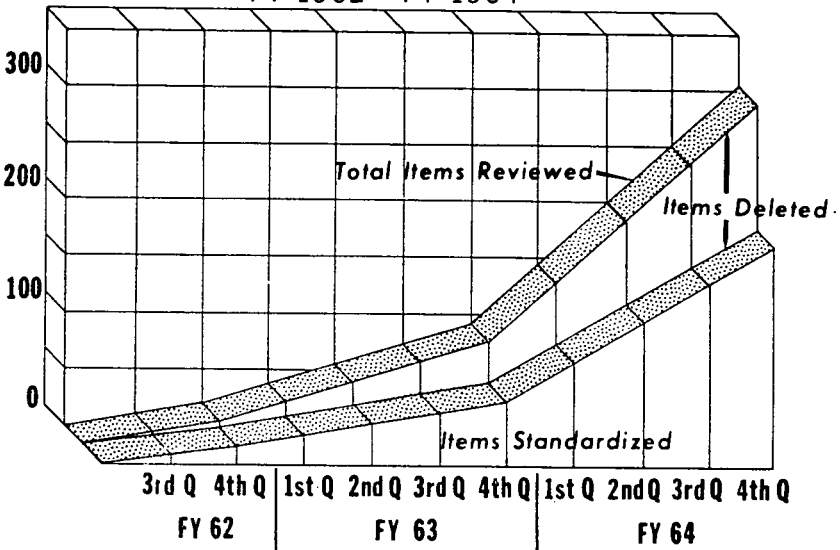


CHART XI

DSA STANDARDIZATION PROGRAM  
**ITEM REDUCTION**  
 FY 1962 - FY 1964

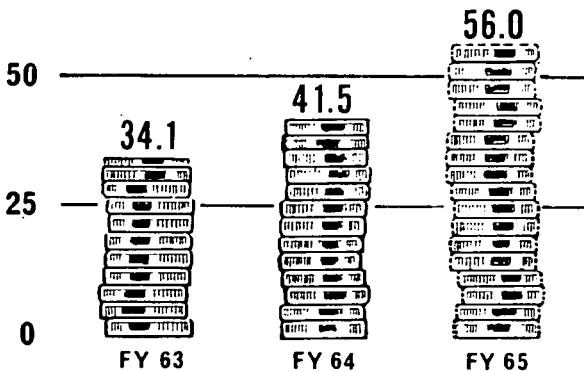


Reviews of recurring annual savings in operating costs furnish another measure of the soundness of the decision to establish DSA. The consolidations, mergers, reduction of storage sites, and elimination of duplicate inventory management activities have resulted in sizable savings. These savings of \$34.1, \$41.5, and \$56 million are based principally on reduced staffing and maintenance costs, and other related savings such as reduced equipment rentals resulting from consolidations and mergers. (See chart XII.)

CHART XII

RECURRING OPERATIONAL SAVINGS

Millions of Dollars  
 75





In the analysis of these savings, it should be stressed that the total savings shown represent hard savings. For the most part, they are associated with specific reductions in personnel allowances for the military departments as compared with the number of personnel transferred to the Defense Supply Agency. If we can assume that these costs would continue to accrue each year had DSA not been established, the cumulative cost to the taxpayer would aggregate \$131.6 million through fiscal year 1965. Even if these costs were offset by the cumulative cost of \$14.5 million attributable to the rehabilitation of the new headquarters site and relocation of activities, a net saving of \$117.1 million would have obtained.

The Defense Supply Agency's role in the procurement field has also expanded rapidly. In fiscal year 1964 we expect to procure about \$3.1 billion worth of materiel in comparison to the January 1962 rate of \$2.3 billion. As indicated, three commodities, food, clothing, and petroleum comprise more than 75 percent of the total procurement program. The balance is divided among the remaining six commodity groups.

To date, our current year procurements total approximately \$2 billion, or about two-thirds complete—right on target. (See chart XIII.)

The Defense Supply Agency is continuing to broaden the base of procurement through emphasizing the opportunities the DSA market offers to industry and increasing the scope of competition for our contracts. In giving particular attention to increased competition, awards to small business firms and labor surplus areas have not been overlooked. In fact, on a comparative basis our current competitive rate of 91.4 percent, together with a rate of 39.7 percent in awards to small business and 24.3 percent labor surplus rate, represent small increases over the already high achievements of fiscal year 1963. It should also be remembered that the type of commodities managed by DSA lend themselves to competitive procurement more readily than those managed by the military services and, therefore, direct comparison with service performance should be avoided. (See chart XIV.)

We are also making some progress in reducing procurement costs by the elimination of unnecessary (goldplating) features of items we procure without impairing their performance. This is accomplished through the formalized review and inspection procedure of our value engineering program. The table below presents examples of savings DSA has achieved through this program. While individually small, the aggregate of these and similar savings becomes quite significant when applied to a large number of commodities over a period of time. (See chart XV.)

CHART XIII

**FISCAL YEAR 1964 PROCUREMENT PROGRAM TOTALS \$3.057 BILLION**

**\$1,965 MILLION OR 64.9% PROCURED**

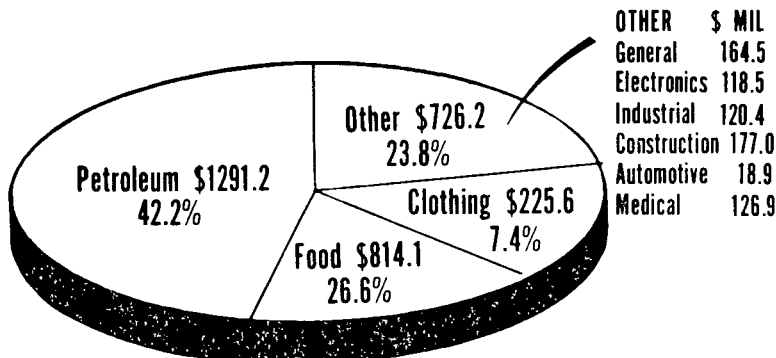


CHART XIV

**PROCUREMENT PERFORMANCE** (FY 1963 - FY 1964 to date)

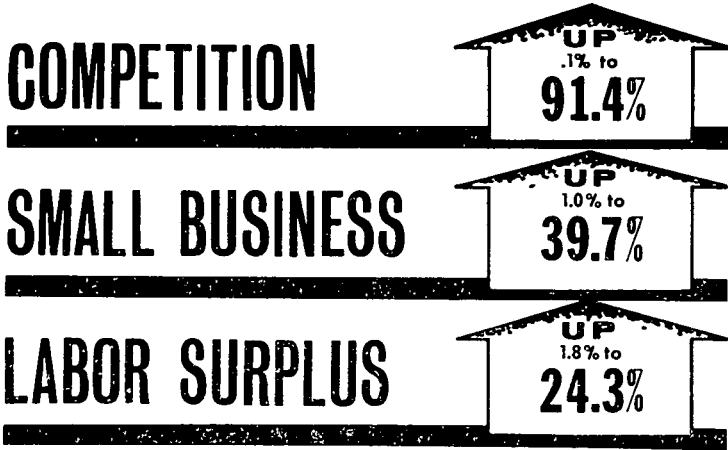
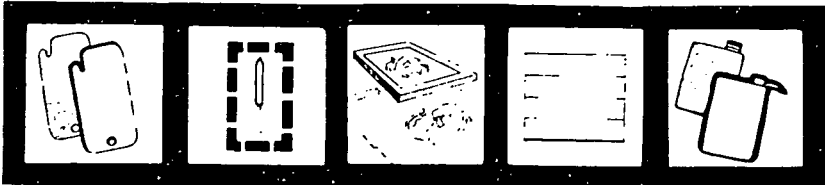


CHART XV

**EXAMPLES OF VALUE ENGINEERING SAVINGS**

DESCRIPTION OF REVISED PROCESS, SUBSTITUTION, OR REDESIGN	SAVINGS
1 IDENTIFICATION TAGS: SUBSTITUTION OF CORROSION RESISTANT STEEL FOR MONEL METAL	\$130,600
2 MIL-R-II TYPE RESISTORS: MODIFICATION OF PACKAGING SPECIFICATIONS	\$100,000
3 U.S. FLAG: SUBSTITUTION OF SILK SCREEN PROCESS IN LIEU OF APPLIQUE PROCESS	\$72,100
4 PHOTOGRAPHIC PAPER: MODIFICATION OF PACKAGING	\$61,000
5 SCREW CAP CAN: REDESIGN OF THE CLOSURE	\$49,000



*Examples of value engineering savings*

Description of revised process, substitution, or redesign :

	<i>Savings</i>
1. Identification tags: Substitution of corrosion-resistant steel for Monel metal-----	\$130,600
2. Mil-R-II type resistors: Modification of packaging specifications-----	100,000
3. U.S. flag: Substitution of silk screen process in lieu of applique process-----	72,100
4. Photographic paper: Modification of packaging-----	61,000
5. Screw cap can: Redesign of the closure-----	49,000

The items shown in the chart are samples of DSA's accomplishment in this area. In each case, these savings represent actual reductions in the total costs of fiscal year 1964 procurements. For example, the substitution of steel for Monel metal reduced the costs of identification tags \$15.60 per thousand and the total cost of the order by \$130,600. Similar savings will occur each time a procurement of this nature is made. Total savings for this program aggregated \$2.1 million in fiscal year 1963 and are expected to exceed \$3 million during fiscal year 1964.

Important as it is to reduce the cost of items we procure, it is at least equally important to reduce the need for procurement through improved utilization of what we already have. DSA is charged with major responsibilities in this area, both as the manager of stock funded inventories of assigned commodities and as administrator of the total material utilization program for the Department of Defense.

One of the major advantages of integrated management is that customer demands are automatically matched against total Defense wholesale assets, thus obviating the need for exchange of requirements and asset data among separate managers of the same commodity. This opportunity has made it possible for us to reduce total inventory investment through the sale, without replenishment, of existing inventories. In this way, we drew down our inventory investment by \$38.5 million in fiscal year 1962. The drawdown in fiscal year 1963 was \$265.6 million. We expect an added drawdown of \$192 million in fiscal year 1964; and an additional \$144 million in fiscal year 1965 to reach a cumulative total exceeding \$640 million by the end of the latter year. (See chart XVI.) These reductions have resulted from—

(1) Improved wholesale requirements determinations which have permitted reduced operating levels;

(2) Consolidation of total inventories which has permitted lower safety levels; and

(3) Increased utilization of excess or long supply materiel in lieu of new procurement, frequently through the substitution of available materiel satisfactory to the users in lieu of materiel initially requested.

As administrator of the Defense materiel utilization program, the Defense Supply Agency has sought to stimulate the interchange of materiel among all inventory managers within the Department of Defense. Its efforts have been directed principally toward the identification of materiel in long supply in the inventories of one or more services and matching it against procurement needs elsewhere. Total redistribution within the Department of Defense has risen an average of \$90 million during each of the last 2 fiscal years. We expect another increase this fiscal year of \$100 million, raising the total to an alltime high of nearly \$1.3 billion. (See chart XVII.)

Two major programs have been given principal emphasis over the last 3 years. First, the "plus" program provides for a mechanized screening of service requirements against releasable system assets and also employs service furnished interchangeability and substitution data. Second, the weapon systems phaseout program is designed to identify materiel used in complex weapon systems scheduled for phaseout which can be diverted to other use, thus reducing expenditures for new materiel and new systems having similar basic components. The weapons included in this program are listed in the following table. The figures in the right-hand column, totaling \$520 million, represent the cumulative total value of materiel redistributed for these systems over the past 3 years. (See chart XVIII.)

CHART XVI  
**NONRECURRING INVENTORY SAVINGS**  
 FY 1962 to 1965

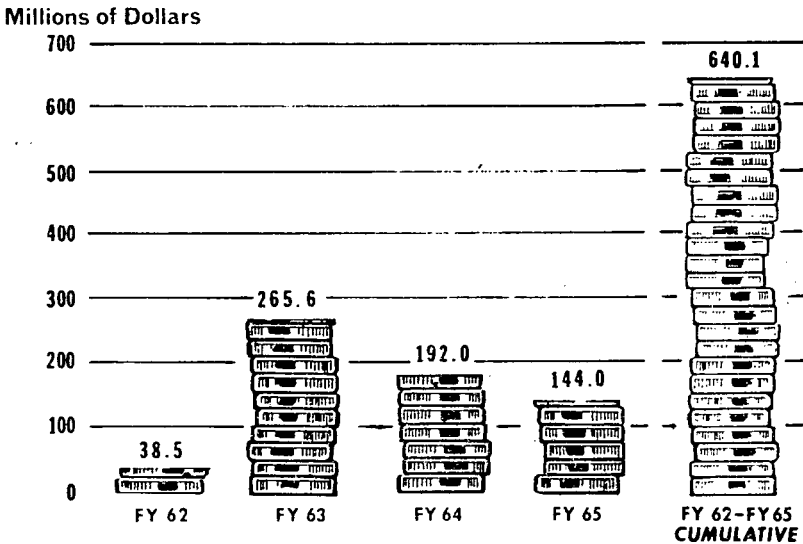
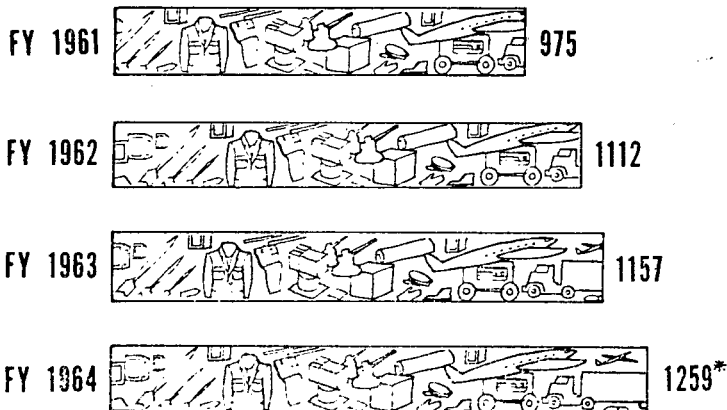


CHART XVII  
**UTILIZATION OF MATERIEL**  
 (Millions of Dollars)

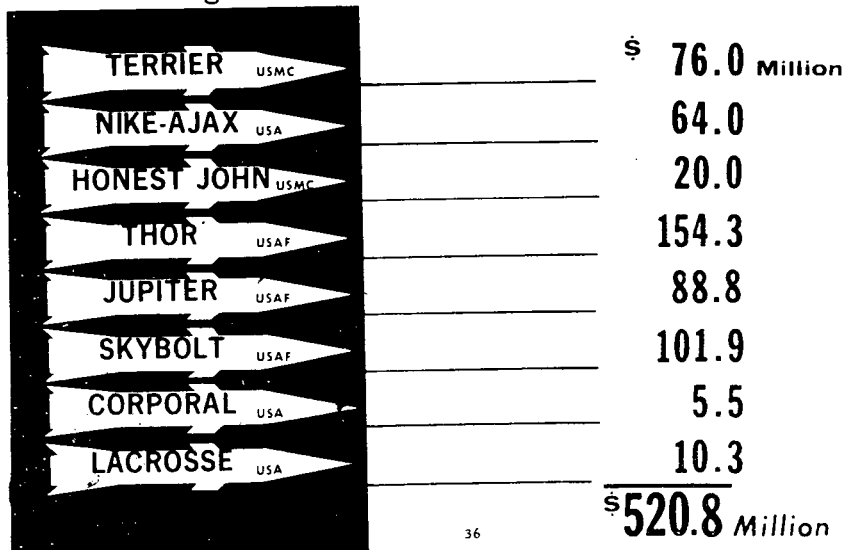


\* Projected FY 1964 Value

## CHART XVIII

## DoD REUTILIZATION OF PHASED-OUT WEAPON SYSTEMS MATERIEL

Savings in millions of dollars as of 29 Feb 64



36

### *DOD reutilization of phased-out weapon systems materiel*

[Savings in millions of dollars as of Feb. 29, 1964]

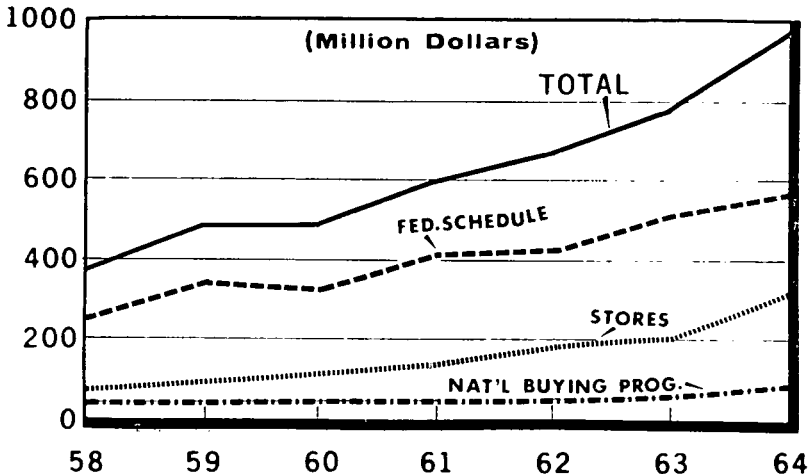
Terrier (U.S. Marine Corps)-----	76.0
Nike-Ajax (U.S. Army)-----	64.0
Honest John (U.S. Marine Corps)-----	20.0
Thor (U.S. Air Force)-----	154.3
Jupiter (U.S. Air Force)-----	88.8
Skybolt (U.S. Air Force)-----	101.9
Corporal (U.S. Army)-----	5.5
Lacrosse (U.S. Army)-----	10.3
<b>Total</b> -----	<b>520.8</b>

DSA recognizes the committee's interest in arrangements for effective and efficient supply management for all Federal Government agencies and its concurrent concern for the impact of Federal supply programs on the national economy. In spite of the size and complexity of the problem, significant progress is being made by close joint efforts between the Department of Defense and the General Services Administration. Our basic objective is to fit together our separate capabilities in a coordinated system which permits each, GSA and DSA, to perform their respective missions with maximum benefit to the Government as a whole. As indicated, GSA's support of the Defense Department has more than doubled during the 6-year period, fiscal year 1958-63. This represents a significant rate of increase, but even this rate is being exceeded this year and we expect GSA sales to DOD to reach a record high of \$976 million in fiscal year 1964. (See chart XIX.)

The increase in sales during fiscal year 1964 resulted in part from the recent transfer of management of handtools and paint and exemplified the increased emphasis on the use the General Services Administration as a major source of supply support for the Defense Department. This transfer of some 25,000 items with inventories of \$58 million was effected as a result of a joint study and, though phased over a very short period of time, was accomplished with a minimum of disruptions.

## CHART XIX

## TREND IN GSA SALES TO DoD



In recognition of the expanding use of the General Services Administration as a source of supply for Defense users, the Office of the Secretary of Defense recently assigned DSA the responsibility for monitoring Defense relationships with GSA in the area of procurement and supply services. This extends beyond assigned item responsibility and requires that we review and evaluate all defense supply arrangements with GSA. The purpose is to give increased attention to uniform policies and practices in this area, and make optimum use of General Services Administration facilities consistent with military readiness requirements.

We are attempting to capitalize on this potential promptly. We are jointly, with the General Services Administration, subjecting over 25,000 items to objective analysis in an effort to establish criteria for determining those items which, because of military considerations, must be managed for the Department of Defense by DSA and those items which can and should be managed by GSA. These criteria, when tested and approved, will constitute a key portion of what we hope to conclude as a general agreement on supply relationships. (See chart XX.) This agreement by its provision is intended to:

(1) Clarify and stabilize the respective roles of GSA and DOD in overall supply management matters—generally to retain within Defense the management of items principally or exclusively used in support of military operations and to use the General Services Administration as a source of supply for items widely used in support of the administrative housekeeping and maintenance functions of Federal executive departments.

(2) Identify and study all commodity areas where Defense, through DSA, may provide Government-wide support.

(3) Maximize cross utilization of facilities, capabilities, and services.

(4) Establish coordinating roles for the Defense Supply Agency and the Federal Supply Service for Defense and civil agency support, respectively.

Both the General Services Administration and the Bureau of the Budget have suggested the feasibility and desirability for the Defense Supply Agency to assume support of all Federal agencies for selected items and commodities. While we do not seek such assignments, we are ready to consider them if the best interests of the Government are thereby clearly served. Areas such as subsistence, medical, and electronics, where military usage constitutes an overwhelming pre-

## CHART XX


 The logo consists of the letters 'DoD' above a diagonal slash, with 'GSA' below the slash.

*Agreement governing...*
**SUPPLY MANAGEMENT RELATIONSHIPS**
**Clarify respective roles**
**Identify commodities for Government-wide support**
**Cross-utilize facilities, capabilities**
**DSA coordinate for DoD - FSS/GSA  
coordinate for civil agencies**

ponderance of the Government-wide requirement, illustrate this potential. We are now actively engaged with the General Services Administration and the Veterans' Administration in a priority study of subsistence supplies, and have other commodities under consideration.

Mr. Chairman, this concludes my report on progress made by DSA in the areas I believe to be of primary interest to this committee.

As you know, I am retiring after 36 years of service. Although my military career has included many interesting and challenging assignments, I consider that my service as the first Director of the Defense Supply Agency, with the exception of combat duty, has been the highlight of my career. I greatly appreciate the interest and support I have received from this committee.

General McNAMARA. Because of this limited time, Mr. Chairman, and members of the committee, I propose confining my remarks to highlights of the areas of DSA's operations which I believe will be of greatest interest to you.

I would like to mention that this is my last opportunity to appear before this committee as a member of the Defense Department on active duty and I wish to express my appreciation and the appreciation of my staff in the Defense Supply Agency for the generous assistance and encouragement that has been extended to us.

I believe that the progress made by DSA in the improved management of supplies and services is testimony to the soundness of the concept of centralized management of common military supplies and services that has been espoused by this committee.

Since DSA began operations in January of 1962 we have assumed the management of some \$2.9 billion worth of inventory stored at 77 locations, and within that time we have reduced our inventory to a little less than \$2.4 billion. Storage locations are continuously being reduced to 29 locations.

## DSA RECEIVES 13 MILLION REQUISITIONS ANNUALLY

We are currently receiving over 13 million requisitions annually, meeting 9 out of 10 of the requirements from material on hand, and during fiscal year 1964 will procure material worth \$3.1 billion, 91.4 percent competitively. These inventory reductions, and our solid record of materiel availability are directly attributable to DSA's centralized supply and service management.

## DSA SAVINGS

Furthermore, they were accomplished with significant savings in both money and people over the cost of performing the same missions within the military departments. As of the end of February we have eliminated 5,303 civilian and military spaces and we are achieving operating savings at an annual rate of \$41.5 million. In addition, our one-time inventory savings to date exceed \$400 million and are expected to exceed \$640 million by the end of fiscal year 1965.

## SCOPE OF ROLE OF DSA

Initially we assumed operational control of eight commodity managers, and one service manager, and the defense programs administered by the Armed Forces Supply Support Center, which included cataloging, standardization, surplus disposal, materiel utilization, and coordinated procurement.

Since then we have received a number of additional assignments. These were: electronic supplies, chemical supplies, packaged petroleum, industrial plant equipment management, the Defense Documentation Center, two military clothing factories, household goods storage and movement, and Army engineering supplies.

We are virtually fully operational for all of the assigned missions and DSA has emerged as a major element of the Defense logistics establishment. The Agency acts for the Secretary of Defense in the administration of Defense-wide cataloging and standardization programs and is also responsible as a commodity class manager for roughly one-half of the total 3.9 million items in the Defense system catalog.

These assignments, together with our accomplishments in the materiel utilization, item entry control, and related cost reduction programs constitute the major portion of DSA's current mission.

## COORDINATION WITH GSA

The Defense Supply Agency recognizes the committee's interest in effective and efficient supply management for all Federal agencies and its concern for the impact of Federal supply programs on the national economy. Significant progress is being made by joint efforts of the Department of Defense and the General Services Administration to fit together our separate capabilities in a coordinated system, permitting both GSA and DSA to perform their respective missions with maximum benefits to the Government as a whole.

GSA support of the Defense Department has more than doubled during the 6-year period, fiscal years 1958 through 1963. This represents a significant rate of increase, but even this rate is being exceeded this year and we expect GSA sales to DOD to reach a record high of



\$976 million in fiscal year 1964. The increase in sales during fiscal year 1964 resulted in part from the recent transfer of management of handtools and paint and exemplifies the increased emphasis on the use of the General Services Administration as a major source of supply support for the Defense Department. This transfer of some 25,000 items with inventories of \$58 million resulted from a joint study and was accomplished with a minimum of disruptions.

Recognizing the expanding use of the General Services Administration as a source of supply for Defense users, the Office of the Secretary of Defense recently made DSA responsible for monitoring Defense relationships with GSA in the area of procurement and supply services. This extends beyond assigned item responsibility and requires that we review and evaluate all Defense Supply arrangements with GSA.

#### SUPPORT FOR ALL FEDERAL AGENCIES

Moreover, both the General Services Administration and the Bureau of the Budget have suggested the feasibility and desirability of Defense Supply Agency's assumption of support of all Federal agencies for selected items and commodities. While we do not seek such assignments, we are ready to consider them if the best interests of the Government are thereby clearly served. Areas such as subsistence, medical, and electronics, where military usage constitutes an overwhelming preponderance of the Government-wide requirement, illustrate this potential. We are now actively engaged with the General Services Administration and the Veterans' Administration in a priority study of subsistence supplies and we have other commodities under consideration.

Mr. Chairman, this concludes my abbreviated report on the Defense Supply Agency in the areas that I believe to be of primary interest to this committee. While the progress that DSA has made can, of course, be attributed to many sources, I am convinced that the major contributions stem from the dedication and the ingenuity of the people made available to me by the military services.

As you know, I am retiring after 36 years of service and, although my military career has included many interesting and challenging assignments, I consider that my service as the first Director of the Defense Supply Agency, with the exception of combat duty, has been the highlight of my career. Thank you, sir.

Chairman DOUGLAS. Thank you, General. You have put the whole country in your debt. As you are going out, do you have any recommendations which you would like to make to this committee or to the services in this field?

General McNAMARA. Mr. Chairman, I am studying right now an expression of final interest which I intend to submit to the Secretary of Defense prior to my departure from the Agency and really I am not ready at this time to state specific views as to what additional assignments the Defense Supply Agency can and ought to assume.

#### PROGRESS IN INTERSERVICE SUPPORT

Chairman DOUGLAS. Have you been able to match requirements against stocks and to effect interservice transfers rather than individual purchases generally, that is, one service might be oversupplied

and give an item to another service undersupplied? Are you able to transfer between the services?

#### PROJECT PLUS

General McNAMARA. With reference to Project Plus, the system which matches materiel requirements and assets through improved materiel utilization, interchangeability, and substitution we are making marked progress with the services. I consider that Colonel Case has done an exceptional job, and incidentally, I am pleased to find that he is nominated as a brigadier general because of this fine work.

You will recall that he was formerly associated with this area of DSA's mission.

Chairman DOUGLAS. He is in charge of the work at Battle Creek, isn't he?

#### MATCHING TOTAL ASSETS AGAINST NEEDS

General McNAMARA. Yes, sir, he is and is leaving a splendid record, I might add. Colonel Case has shown that Project Plus provides an opportunity for us to automatically match the long supply assets against the requests of the services in these specified areas so that we can give an exchange of data among the several separate inventory managers and thus reduce or eliminate the procurement of items that are already in the system.

Chairman DOUGLAS. Is this an accomplishment, or an aspiration?

General McNAMARA. No, this has been effected, Mr. Chairman. Actually some \$1,157 million worth of materiel was utilized in 1963 and a target value of some \$1.3 billion is expected during fiscal year 1964. This is a visible program.

Chairman DOUGLAS. That is a magnificent performance. There is only one other suggestion that I should like to make. I served for a considerable period of time as adjutant of a combat division and we handled of course the fitness reports. My memory is not perfect on this, and probably in time of war it would not be appropriate, but I wondered if in time of peace you could have a rating on the fitness report as to the degree to which the officer in question tried to save money.

I think this would be a stimulus which would spread all through the services because they would know that promotion would depend at least to some degree, upon the ability to economize. I am not suggesting this in time of war for people up on the frontlines. They have other things to do.

But in time of peace and for men in the supply services, I think this would be a good suggestion.

General McNAMARA. I would like to check the point for the record, but I believe, Mr. Chairman, that Mr. McNamara already has this as a point with all of the departments, on cost effectiveness of an individual. I think there is a rating on this.

Chairman DOUGLAS. There is now a rating on fitness reports? That is fine.

General McNAMARA. I think this point has already been covered by the Secretary, sir, in instructions.

Admiral LYLE. For several years all of the services have been taking cost effectiveness into account in their ratings.

Chairman DOUGLAS. That is fine. Mr. Curtis?

(The following related material was furnished for the record:)

Economy in management is a factor in the evaluation reports of all officers of the Armed Forces. The U.S. Air Force, U.S. Navy, and U.S. Marine Corps evaluation report forms require a specific rating to be marked on this feature. The U.S. Army report reflects this consideration in the narrative comments. DSA requires a specific evaluation of this factor for all assigned military officers.

#### ROLE OF DSA IN PROJECT 60

Representative CURTIS. Yes. I wanted to ask one question on this Project 60, General. How does your organization work in on that, if at all?

General McNAMARA. We participated with the services on this. We have areas of coverage, as you know, in the test area, Philadelphia.

Representative CURTIS. But this is a consolidation? You are not directing it?

General McNAMARA. No; I am not directing it. This is a test case and is being operated under the guidance of the Department of Defense. General Stanwix-Hay has been selected from Army to conduct the test.

Representative CURTIS. Is that merely a hope now, or is it in the organizational chart?

General McNAMARA. The tests?

Representative CURTIS. Yes.

General McNAMARA. It starts within the next 2 weeks. I think April 21 is the date that the test commences.

Representative CURTIS. Maybe I have become a little overenthusiastic about what Project 60 is and what it might be. But I don't think I could be overenthusiastic as to what could be accomplished if you ever really developed a corps of—what would we call it?

They would be the inspectors, those who are following through these contracts. In other words, it is still at the test stage and hasn't been put in as a permanent operation, but if it were, it would seem to me it would fall under DSA.

General McNAMARA. I believe a conservative statement would be that the management structure of the Defense Supply Agency could be used to extend coverage in this field, but certainly the purpose of the test hasn't been fulfilled as yet and the final organization is not yet determined so it might be presumptive for us to conclude without knowledge of the test—

Representative CURTIS. I am not trying to make a record, but just to get a consideration for DSA to handle it. I am just a little bit surprised that you are not. I mean actually I would have thought this would have been the kind of thing that you would direct, but there are many ways of doing things and it may come out all right.

In fact I am sure it is beneficial whatever the operation is. Let me ask one other question. You heard my question in regard to the use of the surplus lists in methodology and following and checking the supply system. Would you comment on that?

General McNAMARA. Yes. For many years the same points have been bothering me. We seem always to have a plateau in the value of materiel compared to the return we receive when it is sold as surplus property. Therefore when I started to administer this program I thought a better approach would be to get greater utilization of

items—before they are declared surplus. To that end we have made some studies, Mr. Curtis, and actual steps have been taken to accomplish a degree of this type control.

However, I am sure you would be pleased to know in the Nike-Ajax field alone, one of the services, covering thoroughly its competency to put the equipment that was phasing out in the Nike-Ajax system to other uses, utilized some \$16 million worth of material. They then contacted our agency and after a quick study it appeared to us that expedited action in the other services could perhaps uncover uses for more of these items and to that end we put one man on the items—he was a retired Navy officer, I might add, with some distinct knowledge of the item—and he alone was able to place some additional \$15 million to use right away within the services, thus canceling some time that would have been in research and also some money that would have been expended, although I have not been able to determine the actual dollars that were saved because of this screening.

The sum total of the utilization of materiel from this is already over \$64 million. We are out ahead of the closing of sites now, and are aware of potential users for the type of things like radar and other items that can be commonly used.

#### R. & D. AND OBSOLESCENCE

Representative CURTIS. I am convinced if we are lucky enough in our research and development to keep moving forward this problem of obsolescence is going to be increasingly one of the grave problems that faces us. I read a book, so recently published that I can't get a copy of it here for interrogation, by Eli Ginsberg, who is head of the manpower research study at Columbia University. It contains in a little symposium some statements of experts in the field of defense supply who bring very forcefully this increasing problem of obsolescence, which means the costs that go with that.

I regard the problems of the Office of Economic Adjustment, that Secretary McNamara referred to, as part of this thing. But in the process of getting at it, we gain some insight as to how we can anticipate some of the problems that obsolescence is going to create and minimize it to some degree.

We have humans involved in this in a very great way, as Senator Javits points out.

General McNAMARA. You put your finger on what we call the weapons system materiel program and reutilization program, and this is now totaled up, according to our figures, with action similar to the Nike-Ajax that I mentioned before in the Terrier, the Honest John, the Thor, the Jupiter, the Skybolt, the Corporal, and the LaCrosse, some \$520.8 million of savings as shown in chart XVIII, p. 116.

This follows just what you are saying, Mr. Curtis, of getting out ahead of our program, if we can, plotting the use of these systems that are visibly phasing out. I think the services are doing a terrific job on this. We merely administer in many cases, as you know.

#### ROLE OF JOINT ECONOMIC COMMITTEE

Representative CURTIS. This is one of the basic reasons I feel that the Joint Economic Committee is properly in this area. The military

procurement is very sizable in our total economy today. Furthermore, we have this added ingredient of increased incidence of obsolescence, which is really a test of the success of what we are doing.

I regard obsolescence as one of the costs of real progress, but with this situation I think we have to start to grapple a little better with some of the problems we do create as a result of this.

Let me ask one final basic question. One of the difficulties we had in the early stages of trying to create what is now the Defense Supply Agency, was that the services drew attention to the responsiveness to command, certainly in the military field of supply. I remember General Eisenhower when he was at NATO referred to that as a shibboleth in the sense that it was being used equally to avoid grappling with the real problems, but it still was of basic importance.

Your reports indicate that in the moving over to GSA, to the extent that they have participated, this has created no problem.

The key question is though, with your experience in this field, in the event of mobilization, where a response to the military command becomes paramount, do you think that we should give thought to possibly shifting GSA under the military during wartime, as we shift the Coast Guard from the Treasury Department over to Navy?

I realize this is a general question, but it will point to your experience in responsiveness to command of a civilian agency, as we have in GSA.

General McNAMARA. I speak for myself only on this, as you know. It seems to me that GSA, if you have reference to the oversea portion of GSA, would, I believe, in the event of war have to surrender to someone and it would be logical that we would take over in the combat areas. By we I mean the military.

Representative CURTIS. That is right.

General McNAMARA. I think that the definition of what portion of the military should control has to come from the Joint Chiefs of Staff because there are problems other than the simple peacetime operating control of supplies and services and in my area I would not know all of the problems.

Representative CURTIS. Here is the reason I raise it. I am sure that there has been thought devoted to this, but as we continue to move forward, I am very anxious to continue this trend toward relying more heavily in peacetime on GSA wherever we can. In moving this way, I would hope we would formalize our structure for mobilization or war in this context.

#### FUTURE PLANS OF GSA AND DSA

General McNAMARA. We are, as you know, developing a definite working arrangement between GSA and DSA on the items that each will control and there is a letter to Secretary McNamara covering this subject, that Mr. Boutin apparently discussed with you. (See staff report, 1964, app. 5, p. 169.)

The reply I would expect would be visible shortly. I have not seen any answer to such a letter.

Representative CURTIS. Thank you.

Chairman DOUGLAS. Mr. Miller.

#### ELIMINATION OF INVENTORY ITEMS

Senator MILLER. General McNamara, I have been very pleased with the remarkable performance that DSA has made as shown in your

report. I have not been too familiar with the results of the last year or so and one of the things that had concerned me was the growing volume of catalog items which you have referred to in your report.

In your formal report I find the statement above a review of 318,000 items, standardizing 205,000, and eliminating 113,000 from the system. Do I infer from that that 113,000 items were eliminated from the Federal catalog?

General McNAMARA. Yes, sir.

Senator MILLER. What constitutes an active item in the catalog?

General McNAMARA. One that hasn't been eliminated.

Senator MILLER. Must it be a standardized item?

General McNAMARA. No; if it has been issued for use it would be listed in the catalog. It would not necessarily have to be standardized.

Senator MILLER. That is what I was getting at because it says we will have standardized 205,000 items and eliminated 113,000 from the system. That is why it wasn't clear to me that the 113,000 non-standardized items automatically went out of the catalog, because I had understood that the catalog contained both standardized and non-standardized items.

General McNAMARA. Yes, sir; however, the 113,000 items I had reference to contained both standardized and nonstandardized items which have been or are in the process of being eliminated from the Defense catalog. With regard to your specific question concerning nonstandardized items, they phase out of the catalog with the elimination of stock.

Senator MILLER. I see. Let us say there are 100 items in inventory and there may be a request for one of these items every 3 years. That still would be considered an active item to be left in the catalog.

General McNAMARA. Yes, sir; it could be. We would hope not to have too many, of course, in inventory that would have a demand of such low numbers as that, but it is true that it would be listed.

Senator MILLER. I know you have problems with this and I know you are trying to do something about them, but I am trying to just get a little more information about how you are going about it. How long, for example, do you wait to see whether an item is going to be called for or issued before it is dropped from the active category?

General McNAMARA. Three years is the overall rule of thumb of no activity.

#### PROGRAM OF ITEM REDUCTION

Senator MILLER. I assume you have reviewed these items pretty carefully. Do you have any particular target or objective regarding the number of items that look like they are about on the way out for deletion in the next year or two?

General McNAMARA. No, sir; I couldn't come up with a figure. We have 1,300,000 line items that we handle ourselves, and there are 3.9 million defense items in the catalog, and you just have to claw at it constantly so that you are moving them out as rapidly as you can.

We have set some targets. In conjunction with the military services, we hope to delete about 500,000 per year if we can, and it is a good solid objective. While we have not reached this goal yet, it is a good carrot for everybody to approach. This is our target, and it is a solid target.

Senator MILLER. I know you have made some real progress. It is refreshing to note that the trend has been reversed, but back around

1962 I know a good many of us were somewhat alarmed about the way the trend had been going since 1958. Is there any possible benefit to be derived by perhaps separating out from this concept of active those items that are perhaps active in name only and for all practical purposes are not active so that perhaps you may be able to hit this target of 500,000 a little more readily?

General McNAMARA. Our terminal items are what you are describing, of course. Where we see the requirements for items are approaching an end, we identify the items as "terminal"—the requirement is terminating. However, I would be reluctant to delete an item simply because it had no activity for a specified period of time. Remember, our mission is increased effectiveness and efficiency and we have to be able to react to unexpected burnouts in electronics and wearouts in other things. A precise period of time should not be the limiting factor in retaining items in the system.

You must have replacements, for instance, for critical radar tubes that may never fail, but you must have it. There is a great problem ahead in the segregating of these items, but the truly measurable thing is the advance that has been made in the cataloging area over the many years that we have had this under study. You can now see where we are going in this area, an orderly approach to the overall problem is visible and it isn't just hope any more.

You can see these results right out in front of you and this is a great thing and a tribute to the many people who have been involved with the constructive accomplishments in this program.

I am really pleased myself, and I say it without anything except pride, in the people who are associated with the program. I am really pleased to have been associated in name and deed with these people who have accomplished this reduction you have seen in the last 2½ years.

Senator MILLER. You have every reason to be. I was wondering if there was anything that you have done that you could put your finger on that caused this trend to be reversed starting after 1962?

Is it possible that one of the keys is more technical people who can give attention to this? I understand at one time, and I don't remember what year, that DSA was hurting for adequate technical people to work on this cataloging.

#### GAP IN TECHNICAL AND ENGINEERING CAPACITY

General McNAMARA. Again you put your finger on a subject that I intend to discuss with Secretary McNamara before I leave. I do feel there is a gap in technical and engineering competency of the Defense Supply Agency and I intend to submit my views and my final report to Mr. McNamara and I am sure he will be able to reason with those comments.

Senator MILLER. Perhaps I could get this indication from you. Starting after 1962 or along about 1962, did you, DSA, take on more and more technical people to work on this program? In other words, if we started in 1958 and looked at this and saw the trend going upward year after year until 1962 and then all of a sudden the trends start to go down, would we be able to find possibly one answer to that would be the fact that DSA increased its technical staff substantially to work on this starting around 1962?

General McNAMARA. I think it is just the ability of the people that are associated with the logistics center at Battle Creek. I think the intensification of the efforts in scanning them had much to do with this. I just don't know any one thing that caused that turndown.

I was delighted to see it, I should add, that all of the services as well as ourselves have been intensifying their efforts to achieve this accelerated rate of performance. There are areas of course in the technical and engineering end that I feel should be strengthened, both at Battle Creek and also in other areas, but the details of which I have to work out.

It is just my own sensing and feeling rather than anything else. I can't come out and answer your question explicitly, Mr. Miller, because it is such a broad area and you would have to really total up pretty nearly every act that has taken place in Battle Creek and in the wonderful efforts that the military services have made.

I just don't have that strength administratively. Remember, I am a lean and a hungry organization, according to Mr. McNamara.

(The following additional information was furnished for the record.)

#### CONTROL OF ITEM GROWTH

From the time that the Department of Defense completed conversion of its supply records to the Federal catalog system in December 1958, there was a steady increase in the number of items managed in each successive reporting period, through June 1962. This trend has been arrested in the last three reporting periods. Pressures to increase the number of items in the catalog arise from the rapid advances in science and technology and the consequent introduction into the Defense inventory of weapons and equipment of progressively greater complexity. The interruption of the rise in the number of Department of Defense items registered in the Federal catalog is attributable to a decline in new submissions and an increase in cancellations and deletions arising from emphasis of the cost reduction program of the Department of Defense and, in particular, to:

1. Programs which have had as their object the purging from the catalog files of erroneous or redundant data.

2. Item simplification and standardization programs, which have had the object of reducing the variety of items in the system.

3. Item entry control programs, which have the object of preventing the needless entry of new items into the system.

The programs which have had the most significant depressant effect on inventory of items in the Federal catalog in recent years have been:

1. The accelerated item reduction program, completed on December 31, 1962, which resulted in the elimination of 198,000 items.

2. An extensive Air Force project, known as Project MINT (Materiel Identification and New Item Control Techniques) eliminated 325,612 items from the Air Force system and designated 68,000 additional items as limited standard.

3. Project Shakedown has been underway for more than 2 years. It relies upon technical analysis to achieve maximum commonality, interchangeability, and substitutability of technical items such as aircraft engine fuel system components, guided missile components, aircraft ground servicing equipment, flight instruments, and test instruments. As of December 31, 1963, of a total of 121,269 item identifications reviewed, 14,557, or 12 percent, had been designated for elimination, and 42,699, or 35 percent, had been determined to have the possibility of interchangeability and substitutability use. In addition to those mentioned above, some more recently initiated projects promise to yield significant results:

1. On February 10, 1964, the Defense Logistics Services Center initiated an expanded provisioning screening system. Participating in this system are all Defense activities and the General Services Administration. The objective of this program is to perform a mechanized part number to Federal stock number validation service. The screening will reveal items that have already been assigned Federal stock numbers and thus avoid unnecessary procurement as well as cataloging effort. Results to date indicate that of the items being submitted



for screening, approximately 30 percent are being matched to existing Federal stock numbers.

2. A number of actions have been initiated in the catalog program to assist in the control of item growth of the Federal catalog. An intensive program to improve the Federal item identification guides has been initiated. The guides enumerate the item characteristics required for assignment of Federal stock numbers. Data called for in current guides are not of sufficient depth and scope to satisfy the needs of a number of logistics functions such as procurement, standardization, and supply. Accordingly, action has been initiated to expand the data elements. This expansion will extend the information available for the performance of a characteristic screening. An important aspect is the inclusion of technical guides and interchangeable and substitutable criteria. These criteria will spell out preferred characteristics and establish the necessary parameters to determine whether identical or substitutable items are already in the system. Action also has been initiated to test the feasibility of the mechanical performance of characteristics screening.

3. The Defense Supply Agency is pursuing an active program to check item growth by elimination of items in the system through standardization actions and by increasing its capability to control the unnecessary entry of new items. Fundamental to this program is the collection and organization of technical data applicable to items already in the system and the acquisition of qualified technical personnel to analyze this data for establishment of standard and preferred items and to evaluate proposed new items. Since January 1962, over 152,000 DSA items have been reviewed for essentiality and their standardization status determined. Present plans call for completing this review over the next 4 years. This program is keyed to the acquisition of technical data and adequate technical capability. In order to make maximum use of limited technical talent, DSA has brought its engineers and technicians together in a technical operations directorate at each of the commodity centers. The military services have designated selected activities to furnish technical support to DSA centers, when required.

4. A Defense Item Entry Control Office has been established and is studying and evaluating all factors affecting the entry of new items, including programs such as technical data management, provisioning, standardization, cataloging, procurement, supply management, and utilization.

As an initial step, a pilot test program has been authorized for seven Federal supply classes. Under this test, all items in these Federal supply classes proposed for entry into DOD supply systems will be reviewed technically against source data prior to the assignment of Federal stock numbers. The test will provide data for decisions relative to current policies and procedures, time frames for various functional areas, precise point(s) for the application of entry control from the conceptual phase of R. & E. to the termination phase of disposal and the extent of centralization and automation required for the optimum system.

Chairman DOUGLAS. Gentlemen, I want to thank all of you and those who are associated with you on the magnificent record that you have made. I remind you of the verse of Scripture, "Be not weary of well-doing," and I think my colleagues will agree that this committee intends to assist and to work cooperatively.

I think we are committed to the idea of a general Department of Defense Supply Agency which can handle common-use and non-combat items and I think we should, everyone, be apprised of that fact. Admiral, you are going to, as I say, step into the shoes of a very good man. I also want to congratulate the supply officers of the services for the fine work which they are doing.

There are two very modest men that I also want to thank who always keep in the background, but who have been of tremendous help. One of them is a man who sits at my left, Mr. Ward, who has been working on this problem for many years and who, over the years, has appeared under various aliases and disguises, but all of this in the public interest.

The other is Assistant Secretary Morris who has been sitting out in the audience very quietly. Mr. Morris has, I think, been perhaps

the chief civilian stimulator of this movement inside the Department of Defense.

I am very frank to say I don't think it could have been carried through without him and without you, General, and without the cooperation of the services. He is a man who seems to shun praise and shun the limelight, but he also deserves our thanks which I wish to accord to him.

We will meet at 2:30 this afternoon. Thank you, gentlemen very much.

(Whereupon, at 12:40 p.m., the committee recessed, to reconvene at 2:30 p.m. the same day.)

AFTER RECESS

(Whereupon, the subcommittee reconvened at 2:30 p.m., Hon. Paul H. Douglas, chairman of the Joint Committee, presiding.)

Chairman DOUGLAS. The subcommittee will be in order.

We are very happy to welcome one of the great public servants of this country, the Comptroller General. The country has been very fortunate in having two successive Comptroller Generals to defend the public interest. We are very glad to have you, Mr. Campbell, this afternoon.

**STATEMENTS OF HON. JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES; WILLIAM A. NEWMAN, JR., DIRECTOR, DEFENSE ACCOUNTING AND AUDITING DIVISION; ROBERT F. KELLER, GENERAL COUNSEL; JAMES H. HAMMOND, J. KENNETH FASICK, HAROLD H. RUBIN, ASSOCIATE DIRECTORS, DEFENSE ACCOUNTING AND AUDITING DIVISION; EDWARD J. MAHONEY, ASSOCIATE DIRECTOR, ACCOUNTING AND AUDITING POLICY STAFF; STANLEY S. WARREN, ASSISTANT DIRECTOR, DEFENSE ACCOUNTING AND AUDITING DIVISION; AND RALPH M. KEE, SUPERVISORY ACCOUNTANT, DEFENSE ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE**

Mr. CAMPBELL. Mr. Chairman, at your request we appear before you today to discuss some of the significant matters covered in our reports issued since the time of your hearings of last year, particularly those bearing upon opportunities for improvement in organization and management in the areas of supply management and related common services.

Since appearing before your subcommittee last year we have issued to the Congress more than 140 reports covering our reviews of Department of Defense activities. Your staff has been furnished brief digests of most of these reports, as well as copies of each report.

You will note that our reports this year point out weaknesses in the administration of activities which, in many cases, are similar or almost identical in nature to the weaknesses we discussed last year.

Chairman DOUGLAS. Mr. Campbell, you see we have your reports lined up here, and we have indexed and abstracted 120 of them and placed them in our background report.<sup>1</sup>

<sup>1</sup> See staff report, 1964, pp. 55-150.

Mr. CAMPBELL. We have a copy of that report, Mr. Chairman.  
Chairman DOUGLAS. Yes.

#### DOD CAREFULLY CONSIDERS GAO REPORTS

Mr. CAMPBELL. This does not necessarily mean that the military departments are not making any progress toward the correction of these problems. On the contrary, the Department of Defense officials are giving careful consideration to the matters we bring to their attention.

The military departments have taken a number of actions intended to correct the particular situations our audit reports have disclosed.

#### TWO HUNDRED AND SIX MILLION DOLLARS IN SAVINGS—FISCAL YEAR 1963

Cash collections and other measurable realized or potential savings in Department of Defense operations directly attributable to action taken or planned on findings developed by the General Accounting Office totaled an estimated \$206 million during fiscal year 1963. This record is a further indication of the interest of the Department of Defense in improving its management policies and practices and in curtailing expenses. However, the fact that our audits continue to disclose areas of weaknesses indicates the magnitude of the potential areas for improvement in the underlying methods of management.

#### CONTINUING AREAS FOR IMPROVEMENT

Some of the areas we believe deserve special attention and improved management follow:

##### R. & D., TEST, EXPERIMENTAL CONTRACTS

As to development and procurement of new types of equipment and systems, in the fiscal year 1963, contract awards for experimental, developmental, test and research work exceeded \$6 billion or approximately 22 percent of the dollar volume of all military contract awards. It is to be recognized that not all research, experimental and developmental work will be completely successful in terms of producing better or more sophisticated weapons and equipment.

But it is important that the experimentation, development and testing be accomplished before volume production is undertaken to prevent the dissipation of resources on material that is unusable, requires expensive modification or is no better than less costly material already available.

#### THREE HUNDRED AND SIXTY-SEVEN THOUSAND DOLLARS NEEDLESS COST TO NAVY

In a report to the Congress in March 1963, we disclosed that the Government incurred unnecessary costs of \$367,000 because one of the Bureaus of the Navy Department ordered a new type radar built to operate in an overcrowded frequency band. The Bureau specified the use of a frequency band without obtaining approval for its use from the Director of Naval Communications as required by Navy instruc-

tions. After production was completed the frequency band of these radars had to be changed resulting in unnecessary costs.

Chairman DOUGLAS. What was the Navy bureau which did this, Mr. Campbell?

Mr. CAMPBELL. The Bureau of Weapons, Mr. Chairman.

#### ONE-MILLION-ONE-HUNDRED-THOUSAND-DOLLAR LOSS IN ANOTHER CASE

In another report we disclosed that the same Bureau of the Navy Department incurred unnecessary costs of about \$1,100,000 because a new radar altimeter was designed and built to operate in an unauthorized frequency band and the altimeters could not be used for operational purposes. In this case the Bureau left the selection of a frequency band to the discretion of the manufacturer. When development of the altimeter was well underway, the Bureau requested authority to use the frequency band selected by the manufacturer. The Director, Naval Communications, informed the Bureau that the frequency band for the low-altitude portion of the altimeter could not be used on a permanent basis because it interfered with other electronic equipment which operated on that band. The change in frequency band made it necessary to completely redesign the altimeter.

#### ARMY BUYS \$2.9 MILLION OF UNSUITABLE INSTRUMENTS

Another of our reviews disclosed that the Army awarded five contracts for a total of 59,776 radiation measuring instruments at a cost of about \$2.9 million even though it was aware, prior to the first production contract and each succeeding contract, that the instruments were not suitable for Army use. In addition, over \$663,000 had been expended to modify the instruments produced under the second and third contracts, and we estimated that additional costs of about \$200,000 would be incurred to reimburse the contractors under the fourth and fifth contracts for a temporary work stoppage until the Army investigated technical difficulties and decided whether the instruments would be acceptable to using organizations.

At the time of issuance of our report the 10,800 radiation-measuring instruments produced under the first contract had already been scrapped, and the acceptability of any of the remaining instruments was still questionable.

Chairman DOUGLAS. Is it true there was a loss of about \$3.7 million on these radiation-measuring instruments?

Mr. CAMPBELL. That amount has been spent so far.

Chairman DOUGLAS. Some were salvaged?

Mr. CAMPBELL. The first 10,800 radiometers costing \$605,000 have already been disposed of. There is still a question of acceptability of the remaining items. So the loss may not be the entire \$3.7 million.

Chairman DOUGLAS. What branch of the Army was responsible for this?

#### ARMY ORDERS QUANTITIES OF DEFICIENT SYSTEMS

Mr. CAMPBELL. The Army Electronics Command.

In a report issued to the Congress in February 1964, we disclosed that the Army spent about \$300 million for the development and pro-

duction of a missile system which has not met required performance characteristics and has not improved the Army's capabilities. The unsatisfactory characteristics of the weapon were known at the points in time when the Army ordered successively increasing quantities of equipment and missiles. Because of the deficiencies in the weapon system the tactical units, to which the system was deployed, subsequently requested existing older weapons in lieu of the new weapon.

Chairman DOUGLAS. Who was responsible for this?

Mr. CAMPBELL. The Army Missile Command.

#### UNNECESSARY COSTS OF \$7.4 MILLION—ARMY

In a report issued last month we disclosed that the Army incurred unnecessary costs of about \$7.4 million in the production of a new trailer for transporting the Honest John Rocket when knowledge was available that it had design limitations and did not represent an improvement over existing Honest John ground-handling equipment. The trailer of the new design was a heavier trailer than the one currently in use, with a mounted rocket-loading device. It was intended to replace two vehicles, a trailer and a wrecker.

The Army procured trailers of the new design at a cost of about \$10.4 million when a similar number of trailers of the type already in use would have cost only about \$3 million. The Army had sufficient information available before production showing that the new trailer would serve only as an expensive replacement for the trailer already in use and that because of fundamental deficiencies in the design of the new trailer the wrecker would continue to be required for rocket handling.

Chairman DOUGLAS. Who was responsible for this?

Mr. CAMPBELL. That again was the Army Missile Command.

Chairman DOUGLAS. Have you located the officers who were responsible?

Mr. WARREN. Yes; we know who is responsible for this.

Chairman DOUGLAS. Have you reported that to the Secretary of Defense?

Mr. WARREN. Yes; we have reported this to the Secretary of Defense and to the Congress. However, the Department of the Army is planning to produce new trailers and we have recommended in our report that the Secretary of the Army consider canceling these plans and producing a similar quantity of the previous trailers instead.

#### NEED TO FIX PERSONAL RESPONSIBILITY

Mr. CAMPBELL. Volume production before adequate development or testing of prototypes can and frequently does lead to unnecessary expenditures of Government funds. We believe that personal responsibility for surveillance of research and development programs should be more clearly fixed, and that controls for accumulating, consolidating, and evaluating testing results, performance data, and other pertinent information bearing on the success of a research program should be strengthened. Adequate tests and evaluations should be made of newly developed items prior to award of contracts for their production unless the exigency of the situation demands concurrent development and production. These cases should be relatively rare

in peacetime. When development and concurrent production are undertaken, careful consideration should be given to periodic tests results before allowing production to continue.

#### SECRETARY OF DEFENSE HAS INSTITUTED AN R. & D. PROGRAM

We understand the Secretary of Defense has instituted a program to minimize waste and inefficiency in the research and development program. The Secretary recognized that in the past certain large-scale weapons systems development and even production programs had been undertaken before what was wanted was clearly defined, and before it has been clearly determined that there existed a suitable technological base on which to draw in developing a system.

Frequently, too little attention was given to how a proposed weapons system would be used, what it would cost, and what it would add to our military capability. Under the new program, the Department of Defense follows the practice of inaugurating large system development projects only after completion of a program definition phase. In this phase there is no effort to establish rigorous specifications. Contractors are encouraged to use initiative and innovation in competing for different approaches to the problem. Only after evaluation is made of the most promising approaches and the probable cost is the decision made for a full-scale effort to develop the system.

The plan also contemplates the elimination of duplicate or parallel development effort among two or more services. In a recent aircraft procurement only the development phase has been placed under contract. We understand the production contract will not be awarded until the weapon system has been tested and found satisfactory and economically feasible. We believe, in all cases of newly developed items, it is essential that production be kept to a minimum until development of a satisfactory item has been achieved.

#### STANDARDIZATION

We do not believe the defense standardization program has received the emphasis and strong central direction it requires to achieve its objectives or to realize the economies that could result from aggressive direction by the Department of Defense.

#### THIRTY-FOUR AND ONE-HALF MILLION DOLLAR ANNUAL STANDARDIZATION COST

The current annual cost of the standardization program is estimated to be about \$34.5 million. However, this amount does not include the salaries and expenses of many military personnel assigned to administering the program. Defense officials have stated that for every 1,000 items eliminated from the supply system, about \$1 million a year is saved in management expenses.

#### LOSS FROM LACK OF COORDINATION

We recently made a review of the item reduction phase of the Defense standardization program relating to electronic items. Our draft report was sent to the Department of Defense for comment on April

10, 1964. Our examination, which was limited to certain item reduction projects initiated by the Army Signal Corps, disclosed that based on the Department of Defense's estimate of \$1,000 per year to manage a single item, unnecessary supply management costs approximating \$17 million are being incurred annually because of failure to effect interdepartmental coordination.

#### LACK OF DECISION ON STANDARDS

Item reduction studies prepared under contract for the Army Electronics Materiel Support Agency at a cost of more than \$650,000 were forwarded during fiscal years 1959 and 1960 to the Navy and Air Force for review and comment preparatory to eliminating the electronic items identified therein as nonstandard.

These studies, which took the form of proposed military supply standards, reflected the Army's consideration of 198,073 electronic items. Of this total, 17,971 items were proposed as nonstandard and were recommended for deletion from the supply system. However, because of disagreements, procrastination, and general inactivity among representatives of the three services, no decisions were reached to remove these items from the supply system.

As of the date of our review, approximately 4 years after these projects were forwarded for interservice coordination, practically nothing had been accomplished toward eliminating the proposed nonstandard items from the military supply system. In fact, all of the projects have now been formally canceled. The Army did, however, delete from the defensewide supply system about 1,000 of these items for which they were the only user.

A similar pattern has been disclosed by our reports on standardization of clothing items. We have submitted reports of the costly failures to standardize such items as shirts, trousers, work uniforms, trouser pocket flaps, and dress shoes. In these cases standardization had been under consideration for long periods of time. However, it was only after our reports were submitted that action was taken to standardize these items.

Representative GRIFFITHS (presiding). May I interrupt, Mr. Campbell? Have they actually standardized a good many items of this clothing or not?

Mr. CAMPBELL. Have many of these items been standardized?

Representative GRIFFITHS. Yes; have they now standardized them for all services?

Mr. CAMPBELL. They have not standardized all of them.

Mr. WARREN. We have been reviewing this, and they have standardized many of the items. I believe we have given a lot of impetus to this. When we came in, they were not standardizing on shoes, trousers, shirts, and so forth.

Representative GRIFFITHS. They had not standardized handkerchiefs?

Mr. WARREN. Handkerchiefs have been standardized.

#### SERVICES CONTROL STANDARDIZATION

Representative GRIFFITHS. What percentage of the dollar volume have they standardized?

Mr. WARREN. I really could not tell you the exact amount of dollar volume. There are still many items that still require standardization actions. The difficulty is that if one service says it will not standardize, the Department of Defense has not taken action to force the standardization action. In other words, they have accepted answers from the services as binding, and they do not force the standardization.

Representative GRIFFITHS. Do they standardize with each other or do they standardize also in comparison to commercial clothing?

Mr. WARREN. I would say both, to that. During a standardization meeting, they would consider the items they presently have and those that are used commercially and try to come up with a product which is most satisfactory. The difficulty is that if one service stands fast, that is the end of the standardization.

#### NONSTANDARD CLOTHING ITEMS

Representative GRIFFITHS. Could you give us a list of the items, for the record, on which standardization has failed in the matter of clothing?

Mr. WARREN. Yes.

Representative GRIFFITHS. Thank you.

(The list furnished follows:)

- Utility caps.
- Man's raincoat.
- Woman's raincoat.
- Nurses' uniforms.
- Man's field jacket.
- Man's flying coveralls.
- Man's sweat pants and shirts.
- Heat protective coats and trousers.
- Woman's scarfs.
- Swim trunks.
- Belt buckles and clips.
- Combat boots.
- Man's cold-weather insulated boots.
- Man's high overshoes.
- Combat vehicle crewman's helmets.
- Construction worker's helmets.
- Military police accouterment.

Representative GRIFFITHS. You may continue, Mr. Campbell.

#### UTILITY CAPS

Mr. CAMPBELL. Other items equally susceptible to standardization are still being considered by the Defense clothing and textile supply center. For example, the Army, after the military services could not agree on a common utility cap, developed its own cap using a design significantly more expensive than that being used by the Navy and Marine Corps.

Further, while the Navy and Marine Corps have found their utility cap to be acceptable over a period of years of use, the Army cap, based on tests conducted by the Army and other services has several serious drawbacks. The Army cap costs about \$1.08 while the Navy and Marine Corps caps cost about \$0.67 and \$0.57, respectively.



## STANDARDIZATION AUTHORITY IN SECRETARY OF DEFENSE

Representative GRIFFITHS. If I may interrupt you further, who has the authority to make the final decision on whether or not they standardize?

Mr. WARREN. The Secretary of Defense.

Representative GRIFFITHS. Thank you.

## BOOTS

Mr. CAMPBELL. Despite standardization efforts of over 10 years by the Department of Defense, the Army, and Marine Corps combat boots still have separate types of closures. While this is the only difference between the boots, it prevents the elimination of one of the types of boots from the supply system. The Department of Defense had recognized that the Marine Corps had not adequately supported its position for a separate type of closure and has now requested the Marine Corps to conduct tests.

## STANDARDIZATION REPORT TO CONGRESS

The Department of Defense is required under the provisions of title 10, United States Code, section 2455 to submit to the Congress a semi-annual progress report on standardization accomplishments. In addition to other matters, this report informs the Congress of the reductions in the number of sizes, and kinds, of general similar supply items.

## OVERSTATEMENT OF ACCOMPLISHMENTS

We found that accomplishments have been grossly overstated in these reports.

Representative GRIFFITHS. How have they been overstated?

Mr. CAMPBELL. To what extent?

Representative GRIFFITHS. Yes, and how have they overstated them?

## NATURE OF OVERSTATEMENT

Mr. CAMPBELL. The overstatements occurred as a result of duplicate and improper reporting and the inclusion of unilateral item reductions which did not result in the elimination of the items from the defensewide supply system. Most of these unilateral reductions are reported as accomplishments again when another service subsequently eliminates the items from their departmental supply system.

As a result of the overstatement of supply standardization accomplishments, the semiannual reports to the Congress do not provide a reliable basis for appraising program effectiveness.

## COMPTROLLER GENERAL RECOMMENDS THAT DSA HAVE POWER OF DECISION

We believe, and have so stated to the Secretary of Defense that the standardization activity of the Defense Supply Agency should be given specific authority to make final supply standardization decisions for all items in the military supply system when necessary because of interservice disputes.

## ADDITIONAL RECOMMENDATIONS

We recommended also that the Defense Supply Agency (1) develop more adequately the policies and procedures necessary for effective accomplishment of standardization projects; (2) establish priorities and goals for timely achievement of item reductions; and (3) maintain closer surveillance and exert positive control over work progress.

Further, we believe there is a need for an improved reporting system which would include clearly defined reporting objectives and which would report to the Congress item reduction accomplishments only when a supply item is removed from the defensewide supply system as a result of the defense standardization program.

## DEFENSE CONTRACTS

Too frequently we find contractor-Government relationships to be substantially less than ideal. Where this is true, the Government has wasted money through purchases at excessive prices, expenditures for unnecessary frills, and purchases of defective supplies and inoperable equipment.

## NEED FOR HARD LOOK AT CONTRACT ADMINISTRATION

We believe the overall responsibility for this waste and inefficiency must be assessed to both the Government administrators and the contractors. We believe it is time for the Department of Defense to take a hard look at the manner in which Government contract administrators and defense contractors are discharging their responsibilities.

## COST REDUCTION POTENTIAL

This is an area in which we believe there is considerable room for cost reduction in keeping with the President's economy drive.

## NEED FOR GREATER PERSONAL RESPONSIBILITY

Forty-six reviews of contract administration on which we reported during the past 12 months continue to lead us to the conclusion that both the contractors and the Government contract administrators should assume a greater sense of personal responsibility.

## GOVERNMENT SHOULD USE ITS OWN RESOURCES, DATA, AND STOCKS

Specifically, substantial savings could be realized in the procurement of supplies and equipment if the Government made more extensive use of its own procurement resources, including technical data and drawings and stockpiles of supplies.

## TWENTY-NINE BILLION DOLLAR DOD AWARDS, FISCAL YEAR 1963—12.7 PERCENT FORMAL ADVERTISING

As to need for greater use of technical drawings and data, in the fiscal year 1963, the Department of Defense awarded over \$29 billion

worth of Government contracts and contract modifications. Of this amount, \$3.6 billion or 12.7 percent was awarded by formal advertising. This compares with 12.6 percent in the fiscal year 1962.

#### DETAILED ENGINEERING DATA NEEDED TO IMPROVE COMPETITION

The military services have participated in a program of screening proposed procurements for the purpose of reducing the number of noncompetitive procurements. To the extent that increased competition has been achieved, in many cases it appears to have been accomplished by various means of describing the items, short of providing detailed engineering data. Our reviews have found, however, that when the only descriptive material available was manufacturer's part numbers, cataloging identification, or other fragmentary data, the solicitations were noticeably less effective in terms of the number of bidder responses.

#### TECHNICAL DATA PACKAGE

As we pointed out last year, one of the basic problems the services have encountered in endeavoring to increase competitive procurement, has been their inability to furnish a complete technical data package for the purpose of informing prospective suppliers of what is required. This is due to the fact that the military services have accepted data and drawings marked with legends indicating a restriction on the right of the Government to use the data inconsistent with the terms of the contract.

Chairman DOUGLAS (presiding). Mr. Campbell, I can't quite understand that sentence. What is the meaning of your statement?

Mr. CAMPBELL. I would like to go on, Mr. Chairman, and I think I will answer your question.

Chairman DOUGLAS. Very well.

#### RESTRICTIVE CLAUSES IN CONTRACTS

Mr. CAMPBELL. It is stipulated in the restrictive or "limited rights" clauses of contracts that data identified as "proprietary" and delivered under the contract may not be released outside the Government nor disclosed or used for procurement or manufacturing purposes, without the permission of the contractor, if each piece thereof is appropriately marked by the contractor with a prescribed legend.

#### CONTRACTOR DESIGNATES RESTRICTIVE PORTIONS

The legend provides a space for the contractor to identify the contract number and stipulates that "only those portions thereof which are marked (for example, by circling, underscoring, or otherwise) and indicated as being subject to this legend" shall not be disclosed or used by the Government for procurement or manufacturing purposes without permission of the contractor.

#### CLAUSES INEFFECTIVELY ADMINISTERED

However, in actual practice the requirements of the clauses have not been effectively administered. In many cases drawings are marked with legends indicating a broad restriction on the whole drawing as

opposed to a marking of some specific portion of the drawing that is subject to protection of some legitimate proprietary right. In these cases the military departments are reluctant to use the data until thorough research has been made as to the Government's actual right to use all or a portion of the data.

#### GOVERNMENT DEPRIVED OF USE OF OWN DATA—RECOMMENDATIONS

As a result, the Government is being deprived of the use of a great bulk of the data acquired and delivered under negotiated production and supply contracts. We believe that firm measures should be taken to avoid or substantially limit the acceptance of drawings and data on which the Government's right to use such drawings and data are restricted. The contractors should also be required to submit required data promptly or be subject to penalties.

#### NAVY LOST CAPABILITY TO USE GOVERNMENT DATA

In one of our reports (B-146734, dated June 25, 1963) we disclosed that the Government gradually lost its capability to use technical data for competitive procurement of replacement spare parts for gas turbine engines developed at Government expense. When entering into and administering follow-on production contracts, the Department of the Navy failed to acquire unlimited rights to use current data which gradually replaced the unrestricted data initially acquired.<sup>1</sup>

#### NAVY CONTRACTED TO PAY \$1,010,000 FOR GOVERNMENT'S DATA

In another case (B-146035, dated Dec. 31, 1963) we found that the Navy contracted to pay a contractor \$1,010,000 for a technical data package although it had already acquired, under prior contracts, unlimited rights to use all significant data included in the data package.<sup>2</sup>

#### QUESTION OF FRAUD

Representative GRIFFITHS. Where they paid the million dollars to a contractor for the technical data package, although they had acquired prior rights under a prior contract, as a matter of fact that is fraud on the part of the contractor, isn't it?

Mr. CAMPBELL. Our legal department has been handling that, and Mr. Keller can best describe what has happened.

Mr. KELLER. I would not say there was fraud in this particular case. We did, when we developed the case completely, disallow the entire payment under the contract, and the \$1,010,000 has been collected from the company.

Representative GRIFFITHS. If it is not fraud, if it is an honest mistake, then are you saying that neither the Government nor the contractor knows what it is doing?

Mr. KELLER. In this particular case, the contract called for the furnishing of technical data. When we got into it, the Navy took the position that they were buying technical assistance.

<sup>1</sup> See p. 10, *supra*. See staff report, 1964, pp. 59 and 97.

<sup>2</sup> See p. 10, *supra*. See staff report, 1964, pp. 67 and 114.

There was argument advanced, also, that the Government received some technical data it was not entitled to receive under the prior contracts. We were of the opinion that the Government had acquired data rights under a series of contracts going back for a number of years.

As I stated, the money has been collected back from the contractor.

#### RESPONSIBILITY FOR ACTION

Chairman DOUGLAS. Had not the Government already paid for this information, for the drawings, and for the directions?

Mr. KELLER. That is correct, sir.

Chairman DOUGLAS. And then it paid \$1,010,000 again?

Mr. KELLER. That is correct, Mr. Chairman.

Chairman DOUGLAS. Who was responsible for this bright idea?

Mr. KELLER. The contract was negotiated by the Department of the Navy, the Bureau of Weapons, I believe.

#### NEED TO ESTABLISH AND PROTECT PUBLIC RIGHTS

Mr. CAMPBELL. These cases illustrate the continuing need for the military services to assure their capability to procure competitively through the establishment and protection of their rights in data.

#### GOVERNMENT SHOULD DO MORE DIRECT PROCUREMENT

The Government should engage in more direct procurement. Oftentimes, in the production of equipment, Government contract administrators will permit contractors to buy parts or subassemblies which are either regularly stocked or are being bought concurrently by the military departments. For various reasons, the Government is frequently able to acquire this material at prices substantially lower than prices offered by the suppliers to contractors producing the equipment on which it is to be installed.

#### GOVERNMENT SHOULD FURNISH MATERIALS

In these cases we believe it would be prudent for the Government to furnish the material to the contractors and thus reduce production costs and contract prices.

In one report we disclosed that, although the military services were buying and had the capability to furnish certain types of electronic equipment for the modification of SA-16 aircraft, the modification contractor was authorized by the Air Force contract administrators to purchase the needed equipment.

#### CONTRACTOR PRICE 61 PERCENT OVER GOVERNMENT'S

The Air Force did not furnish the contractor with pertinent information on past, current, and planned purchases of this equipment by the military services. Prices obtained by the contractor were about 61 percent higher than prices currently being obtained by the Air Force and Navy for like equipment. The total additional cost to the Government resulting from this price differential was about \$1,150,000.

The Government frequently can obtain better prices through direct purchases than do contractors purchasing for the Government. This fact is borne out in our report on a review of increased costs resulting from the procurement of spare parts by the Air Force under contracts for related aeronautical equipment, submitted to the Congress in January 1964.

#### SPARE PARTS PURCHASES

Generally, when a new item of equipment is purchased, it is a practice to purchase from the equipment contractor a complete range of spare parts to assure support of the equipment for an initial operating period, usually 1 year. Our report showed that the Government has incurred unnecessary costs estimated at over \$18 million during the years 1959 through 1961. This was because the Air Force purchased spare parts, costing over \$50 million, under contracts for related equipment, although the parts could have been purchased under spare parts contracts, generally from other suppliers, for about \$32 million. These parts were of the type that had been purchased previously by the Air Force, either under parts contracts or under earlier equipment contracts, and additional parts needed could have been obtained under parts contracts at substantially lower costs.

#### REASON FOR PRICE DISCREPANCIES

Chairman DOUGLAS. Mr. Campbell, how do you account for the fact that the Government can generally obtain better prices through direct purchases than contractors purchasing for the Government?

Mr. CAMPBELL. My impression is that the Government is in a better position to negotiate with the supplier directly. One reason is the volume of purchases involved as against the smaller volume for which the individual contractor would be forced to negotiate.

Chairman DOUGLAS. Secretary McNamara has, of course, reduced the volume of cost-plus-fixed-fee contracts. But to the degree that they still exist, this results, does it not, in a higher price paid by principal contractors?

#### SOURCE PRICE VERSUS CONTRACTOR'S PRICE

Mr. CAMPBELL. That is correct. I should also say, Mr. Chairman, that in direct purchase, of course, you eliminate the markup which the prime contractor would add to the source price.

Chairman DOUGLAS. That is the point that Senator McClellan made in dealing with one of the airplane companies.<sup>1</sup>

#### FAILURE TO USE MILLIONS OF EXCESS ITEMS ON HAND

Mr. CAMPBELL. With respect to excess stocks of Government-owned supplies and their use in the procurement of end items of equipment, one of the reports which was furnished for the consideration of this subcommittee last year disclosed that the Navy had about \$2.2 million worth of excess spare parts and assemblies for F-8U-type aircraft which could have been transferred to a contractor as Government-

<sup>1</sup> See S. Rept. 970, 88th Cong., 2d sess., "Pyramiding of Profits and Costs in the Missile Procurement Program"; report of Committee on Government Operations, U.S. Senate, 1964.

furnished material for use in production of new aircraft of the same type.<sup>2</sup>

As stated in our report submitted to the Congress in February 1963, the Navy had no established procedures for identifying such excesses and arranging for their transfer and use in current production of aircraft. We found that about \$1.9 million worth of excess spare parts and assemblies could have been used in aircraft production during the fiscal years 1960, 1961, and 1962.

After we brought this matter to its attention, the Navy transferred \$893,000 worth of the excesses for use in production of aircraft ordered in fiscal year 1962 and planned to transfer about \$789,000 worth for use in fiscal year 1963.

#### LARGE ECONOMIES POSSIBLE IN NAVY

We made a followup review of the Navy's fiscal year 1963 plans to use the excess spare parts and assemblies. We found that \$294,000 worth of excess items were usable in the production of S-2-type aircraft and a contractor had informed the Navy that it could use \$107,000 worth in the production of Navy orders. However, because the Navy delayed so long in furnishing the excess items to the contractor, production schedules would not permit it to await the transfer of the parts and assemblies.

After we inquired into the matter, the Navy took action to determine the quantities of excess items that could be made available for use in the production of aircraft during fiscal years 1964 and 1965, and planned to use \$288,000 worth of the excesses. However, in the meantime, an additional \$298,000 worth of spare parts and assemblies usable on S-2-type aircraft became excess to Navy needs, thereby increasing the amount of the excesses from \$294,000 to about \$592,000.

#### ARMY FAILED TO USE EXCESSES

In another report we disclosed that the Army had incurred an estimated \$1.4 million of unnecessary costs in the production of Nike-Hercules missiles through its failure to recognize the availability of excess missile components and to provide these to the missile contractor for use in production. These excess components were transponders which had been acquired for use as spares but were no longer needed for this purpose.

#### GAO ECONOMIES

Chairman DOUGLAS. You will forgive me, Mr. Campbell, if I constantly raise questions. Earlier, you modestly claim a savings which you made here, included in the \$206 million, or economies which you said had been effected through your suggestions.

Mr. CAMPBELL. These items would be in our report for fiscal year 1964. They are not in the \$206 million amount which I mentioned earlier.

#### GAO SAMPLING INDICATES SAVING POTENTIAL

Chairman DOUGLAS. Presumably, and in fact, at Battle Creek, they attempt to get a record of the stocks in all services and balance

<sup>2</sup> See Comptroller General's Report B-146727, Feb. 15, 1963; synopsis in staff report 1963, p. 121.

those against the requirements of all services and effect transfers. Couldn't the Battle Creek agency be used to accomplish a better balance of stock as against requirements?

Mr. CAMPBELL. I think it could. Of course, Mr. Chairman, the examples that I give here do not encompass very large figures. You realize that we do not get into too many items. This is only an indication, and you might have to multiply this by many times to arrive at the real loss.

Chairman DOUGLAS. I suppose Battle Creek uses computers. I should think that the use of computers would permit the surpluses and deficits to be identified.

Mr. CAMPBELL. Yes, sir.

#### NEED FOR STRICTER CONTRACT ADMINISTRATION

As to other areas indicating need for better contract administration, briefly, other areas in which our reports of the past 12 months indicate a need for stricter contract administration by Government personnel and recognition by contractors of their responsibility to provide the Government with its requirements at minimum cost are illustrated by the following examples:

#### CASES OF EXCESSIVE COSTS

1. In 15 reports we disclosed excessive prices, totaling about \$12 million, were negotiated with prime contractors.

2. In eight reports we disclosed excessive prices negotiated by prime contractors with subcontractors. In five cases excessive prices totaled \$2 million. In three cases the subcontractor's profits ranged from 38 to 51 percent of production costs.

#### POSSIBLE REMEDIAL MEASURES

Representative GRIFFITHS. May I ask you, Mr. Campbell, do you have any suggestion for ways in which this could be stopped, the excessive charges of the subcontractor?

Mr. CAMPBELL. Mrs. Griffiths, there is no question but that this is a matter of contract administration, of capable conscientious administration of the contract, running right through the prime contractor's operations down through the subcontractors.

#### AUTHORITY OF CONTRACTING OFFICERS

Representative GRIFFITHS. How much control, in your judgment, does the contracting officer exert over a subcontractor?

Mr. CAMPBELL. My view is that the contracting officer has sufficient authority to very carefully monitor subcontracts. This has been my own experience both in and out of Government.

Representative GRIFFITHS. In fact, the contracting officer could, and certainly is obligated, to check the item for the quality.

Mr. CAMPBELL. Yes.

Representative GRIFFITHS. He should know whether or not it really fills the specifications.

Mr. CAMPBELL. Yes.



Representative GRIFFITHS. He should not be permitting the specifications to be changed for the benefit of an irresponsible subcontractor.

Mr. CAMPBELL. That is an important part of his responsibilities.

Representative GRIFFITHS. This is discipline he can obviously exercise?

Mr. CAMPBELL. Yes.

Representative GRIFFITHS. It is less obvious that he can determine the price the subcontractor charges.

Mr. CAMPBELL. He may not be able to determine the price in the first instance, but he is in a position to verify whether that price is reasonable or not. He has the assistance to do that.

Representative GRIFFITHS. What kind of control can he exert to compel a prime to change subs on a price basis?

Mr. CAMPBELL. Generally, in the case of cost reimbursable, price re-determinable, and incentive price supply contracts, the contracting officer has the authority to approve or disapprove all subcontracts except relatively small subcontracts involving a few thousand dollars. Firm fixed price contracts and fixed price contracts with escalation do not require such approval.

#### CONTINUED EXAMPLES OF EXCESSIVE COSTS

Mr. CAMPBELL. Continuing with examples of need for stricter contract administration:

3. Because the Army accepted defective items under two contracts the Government lost \$356,000.

4. The Air Force paid \$2,600,000 too much because a prime contractor did not exercise its contractual right to negotiate reduced rental rates for use of a subcontractor's equipment.

Representative GRIFFITHS. This to me, as well as 2, proves that poor administration of these contracts really results in a prime contractor simply running up the cost, because his profit is based on a percentage of those costs. Why should he rush out and reduce the rent when, if he is charged a higher rent, he is going to get a higher profit? Is that true?

Mr. CAMPBELL. That is usually true, yes.

Representative GRIFFITHS. Thank you.

Mr. CAMPBELL. (Continuing:)

5. Firm fixed prices excessive by about \$5 million were negotiated by the Navy for a ship that had been three-fourths completed before the price was established.

6. Prices for a radar beacon were based on a commercial-type sales catalog even though the contractor had never sold the beacon commercially. A contract for \$1,229,000 yielded a 94-percent profit for the contractor.

Chairman DOUGLAS. Who did that?

Mr. RUBIN. Contracts of all three military services were involved. The contractor indicated this beacon was a catalog item and therefore cost data as to costs in producing the item was not made available to the agencies involved.

Actually the item had never been sold commercially, and in our opinion should not have been considered a catalog item.

I might mention that the changes in Public Law 87-653 which took place subsequent to this action, we believe, have now controlled the

practice inasmuch as they now require that the contractor can only refuse to furnish cost data for those items which are actually commercially cataloged items sold to the public in substantial quantities.

Representative GRIFFITHS. What was the unit price of the items?

Mr. CAMPBELL. We can supply that.

Chairman DOUGLAS. Could you identify the number of this report?

Mr. CAMPBELL. The index number is 22, B146781—May 20, 1963, Mr. Chairman.<sup>1</sup>

Mr. RUBIN. The unit price is dependent on the quantity of items produced. The price ranged from \$9,810 per item to \$7,000 per item.

Chairman DOUGLAS. That was the ACF Electronics Division, ACF Industries, Inc., of Paramus, N.J.

Mr. NEWMAN. That is correct.

#### CONTRACTOR CHARGED ARMY \$321,000 FOR \$71,000 SURPLUS PARTS

Mr. CAMPBELL. The final item on the list is an instance where a contractor charged to an Army repair contract \$321,000 for parts it purchased from a surplus parts dealer for \$71,000.

Chairman DOUGLAS. Let me get this straight. Do I understand that the surplus parts were sold to a surplus parts dealer?

Mr. CAMPBELL. Yes.

Chairman DOUGLAS. Sold by the Military Establishment. Nobody knows how much the dealer paid but probably appreciably less than \$71,000. The contractor bought these parts for \$71,000 and then charged them into the contract for \$321,000, is that right?

Mr. NEWMAN. That is right.

Chairman DOUGLAS. Mr. Ward has a question.

Mr. WARD. Were these parts sold by the ton originally, do you know?

Mr. WARREN. No, they were sold by the lot, and the weight of a lot may vary.

Mr. CAMPBELL. I may say, Mr. Ward, that this matter has been referred to the Justice Department by us.

#### SUMMARY OF COST REDUCTION POSSIBILITIES

In summary, it would appear that substantial cost reductions can be made by the Department of Defense in its procurement program by giving greater consideration to increasing competition through the use of complete technical data packages, direct Government purchases, and by furnishing equipment, components, and subassemblies to the end item manufacturer in lieu of allowing the contractor to supply items at higher prices.

Further, we believe substantial cost reductions can be achieved by tighter inspection controls and stricter contract administration in general.

Representative GRIFFITHS. Back here where you were telling us about the equipment that had been run off in hundreds of millions dollars worth before they ever found a workable item, I think the Navy did that some years ago with Tacan. I think they had spent almost a billion dollars and never had a workable item. What kind of argument do you meet to justify such expenditures?

<sup>1</sup> See staff report, 1964, pp. 58 and 96.

Mr. FASICK. We have several reports in mind in connection with this particular statement. Two of them we recently issued are Navy reports—on the P6M aircraft—and the Big Dish, the antenna built in West Virginia several years ago. The argument the Department of Defense usually gives, that because of military exigencies it is required to research, develop, and produce at the same time.

I believe Secretary McNamara has indicated that in both of these cases they could have possibly made decisions earlier to curtail these programs. The point we are making is that the evaluation should be made much earlier in a project and a decision made with respect to the adequacies of the product before you go into production.

SAVINGS THROUGH PURCHASE OF AUTOMATIC DATA PROCESSING  
EQUIPMENT

Mr. CAMPBELL. With respect to automatic data processing equipment, last year we reported that our studies of the procurement and use of automatic data processing equipment showed that very substantial amounts of money could be saved if the Federal Government purchased more of its data processing equipment needs.

A cost comparison of 16 different models representing only 523 of the approximately 1,000 systems installed or planned for installation throughout the Government on a lease basis by June 30, 1963, indicated possible savings of \$148 million over a 5-year period if the equipment were purchased rather than leased. For additional use of these 523 machines after 5 years, there would be further savings at the rate of over \$100 million annually.

Chairman DOUGLAS. Let us pause a moment on those figures. What you are saying is that if the Government purchased 5,000 automatic data processing systems, or 523—

Mr. CAMPBELL. Our cost comparison applied only to 523 of what we understand to be a total of about 1,000 leased computers.

Chairman DOUGLAS. Over a 5-year period the rentals would come to \$148 million more than the purchase price.

Mr. CAMPBELL. Yes, sir. We take into account interest on investment and any other proper charges.

Chairman DOUGLAS. The machines would not wear out in 5 years?

Mr. CAMPBELL. No, they should not.

Chairman DOUGLAS. And every year thereafter that they were used would be a saving of \$100 million?

Mr. CAMPBELL. Approximately, on these particular systems.

Chairman DOUGLAS. This estimate included not merely the Military Establishment, but civil departments as well?

Mr. CAMPBELL. Yes, sir.

Chairman DOUGLAS. Do you have figures as to the number in the military departments and the number in the civil agencies?

Mr. CAMPBELL. 380 in the civil departments and about 620 in the Defense area. All under leasing agreements.

ADP EQUIPMENT USED BY MILITARY CONTRACTORS

Chairman DOUGLAS. I suppose that many, if not most, of the large military contractors have these computers in their own establishments.

Mr. CAMPBELL. Yes, sir.

Chairman DOUGLAS. Do you know if they buy them or do they rent them?

Mr. CAMPBELL. These figures I have mentioned exclude those systems which are in the Government contractors' plants, but which are wholly or almost wholly used for Government purposes.

Chairman DOUGLAS. Then, I take it, that the Government really pays for them.

Mr. CAMPBELL. Yes, for all practical purposes.

Chairman DOUGLAS. Do you know whether they are rented or purchased?

Mr. CAMPBELL. Generally rented.

Chairman DOUGLAS. Generally rented?

Mr. CAMPBELL. Yes. There may have been some purchases. Until recently this kind of equipment was almost entirely rented.

Chairman DOUGLAS. So granted that the contractor may not know whether he is going to hold the contract for more than a few years, still wouldn't there be savings in all probability if these were purchased as well, rather than rented and then if the contract is given up, the machines could be transferred?

#### GAO DOESN'T HAVE DATA ON CONTRACTOR-HELD ADP EQUIPMENT

Mr. CAMPBELL. Mr. Chairman, our view is that even though the 100 percent Government contractor, and there are many of those, as you know, rent these machines, or even if they did not purchase them, when they are through with them the Government would very well have use of them in some area. In other words, some other part of the Government may need them. This is a very fundamental problem. Of course, as to the number of machines in the contractors' plants, we have no idea. There must be many more than there are in the Government. In each of our visits to the various contractor's offices and plants throughout the country, we make a special review of the cost and use of such equipment.

#### TREMENDOUS DEVELOPMENT IN USE OF ADP EQUIPMENT

Chairman DOUGLAS. Then it looks as though the potential savings are hundreds of millions of dollars a year.

Mr. CAMPBELL. The use of these machines in and out of Government is growing like Topsy. It is a tremendous development. Our figures are as of June 30, 1963; today it may be up by another 500 systems.

#### EXAMPLE OF ONE CONTRACTOR'S USE OF ADP EQUIPMENT

Mr. WARREN. In regard to Mr. Campbell's statement about the Government having subsequent use for machines that the contractor finds it no longer needs, we have a very good example of that at the Aerospace Division of the Martin-Marietta Co. at Orlando, Baltimore, and Denver. It rented two 704's from IBM that it used for a couple of years, and then returned them to IBM.

At the very same time that the contractor returned these two machines to IBM, the Army started to rent two of the same type of machines at the White Sands Missile Range. At the very same

time after the Army returned one of the machines after using it for over 2 years, the Navy went ahead and bought the same type of machine from IBM. Whereas the machine would have cost only \$1.2 million, the Government so far has paid over \$4.7 million to use this one machine. We have completed our review at the Aerospace Division of Martin and found that it does rent practically all of its computers and works practically 100 percent for the Government.

We found that over a 5-year period the Government will lose \$7.7 million, and over a 10-year period will lose \$37 million because of this practice of renting.

Mr. CAMPBELL. This is one contractor.

Mr. WARREN. This is just one contractor.

#### GOVERNMENT FURNISHED EQUIPMENT

Mr. CAMPBELL. The potential savings I cited previously covered only the amount of equipment that is operated directly by the Federal Government. Our reviews since that time, in a number of Government-contractor plants where automatic data processing equipment is used, indicate possibilities for additional very significant savings if the equipment is purchased by the Government and furnished to contractors as Government-furnished equipment.

During the past 12 months, we have submitted to the Congress 13 additional reports on this subject covering individual instances of identified actual or potential unnecessary costs of over \$16 million. About \$5 million of this amount relates to unnecessary costs incurred or to be incurred over a 5-year period by the Department of Defense in managing its own equipment program and about \$8 million relates to Defense contractor-leased equipment.

#### NEED FOR STATISTICAL DATA

In our opinion, up-to-date information on computer capacity available and new requirements should be readily available on a Government-wide basis as a means of preventing unnecessary acquisitions of equipment and promoting the fullest utilization of equipment already on hand.

For example, it is our general view that equipment no longer required in one program can, in many cases, be used in other Federal programs in lieu of new procurement of similar equipment by the agencies requiring additional computing capacity.

Similarly, Government-owned equipment no longer needed by an original using agency can be transferred to replace comparable equipment that is being leased, thereby reducing leasing costs to the Government. Also, Government ownership of equipment used by many Government contractors would provide a basis for interchange of equipment between Government contractors and Government agencies to fill current needs of either Government contractors or Government agencies as requirements for equipment change.

#### NEED FOR CENTRALIZED AND APPROPRIATE AUTHORITY

The kind of management needed to take full advantage of these possibilities for economy in procurement and utilization of automatic

data processing equipment can only be achieved if the responsibility is centralized and appropriate authority provided to make such management effective.

DOUGLAS BILL, S. 1577, 88TH CONGRESS, 1ST SESSION

We have noted, Mr. Chairman, that you introduced Senate bill 1577 as a positive step toward improved Government-wide coordination of the management of automatic data processing equipment. We have recommended to the chairman of the Government Operations Committee, U.S. Senate, that it be given favorable consideration.<sup>1</sup>

BROOKS BILL, H.R. 5171, 88TH CONGRESS, 1ST SESSION

Also, as you know, H.R. 5171 introduced by Congressman Jack Brooks, chairman of the Government Activities Subcommittee, House Committee on Government Operations, has already passed the House of Representatives. This bill is also directed at improving Government-wide management and administration of automatic data processing equipment.

Chairman DOUGLAS. Let me say that Congressman Brooks introduced his bill first. He should have the credit for initiating action in this field. I do hope that we can get immediate action. His bill has passed the House. I would be very glad to accept his bill if the Senate would pass it. I hope we can get immediate action, but I must say I have been somewhat discouraged by the lack of support from quarters where I had hoped for support.

Without putting anybody on the spot, may I ask if there is a representative of the Budget Bureau here this afternoon?

Chairman DOUGLAS. I wonder if you would inform the Associate Director of the Budget Bureau that I would like to ask questions about this tomorrow on automatic data processing—pardon me, next Tuesday—so that the Bureau can be prepared for questioning on this point.

Mr. GEORGE G. MULLINS (Bureau of the Budget, Assistant Chief, Office of Management and Organization). Senator, the letter you mentioned already states that this matter should be covered. (See p. 150.)

Chairman DOUGLAS. I hope there will be a reply.

SOME PROGRESS DURING PAST YEAR

Mr. CAMPBELL. Mr. Chairman, in this connection, the Bureau of the Budget, at the request of the House Post Office and Civil Service Committee, is, I understand, carrying out a study of automatic data processing in the Government. The Bureau has also established an experimental sharing exchange, a computer service center, at the National Bureau of Standards here in Washington.

The Department of Defense has advised that it has identified equipment costing \$225 million that it estimated could be purchased with economic advantage to the Government of \$65.9 million a year, once the break-even point is reached.

<sup>1</sup> See "Report 1963," pp. 49-50.

## DOD PURCHASED \$200 MILLION IN ADP EQUIPMENT

By March 31, 1964, according to the Department of Defense, it had completed the purchase of about \$200 million of such equipment. So you see we have made some progress in this initial move of about a year ago.

## NEED FOR COORDINATED FEDERAL PROGRAM

These actions by the executive branch indicate some awareness of the significance of the data processing management problem in the Government. However, we would like to emphasize our conviction that until greater emphasis is placed on managing, leasing, and procurement of this equipment from the standpoint of the coordinated overall interests of the Federal Government, the degree of efficiency and economy that is possible and that the Government's financial interests require, will not be achieved.

Chairman DOUGLAS. I thought we had agreed, first, purchase, rather than lease, of computer equipment; second, centralized management so that machines could work nights or on 24-hour schedule and thus serve more than one agency. That we could effect great economies. Do you agree with that?

## COMPTROLLER CAMPBELL HAS STRONG FEELINGS ON ADP PROGRAM

Mr. CAMPBELL. I agree completely. I feel very strongly about this problem. I think this development is just in its infancy in Government. When you, a moment ago, referred to the means to control supplies, these thousands and hundreds of thousands of items needed in Government, the computer system is the only answer. We are just scratching the surface in the use of these machines.

## CHAIRMAN DOUGLAS' LETTER OF MARCH 18, 1964, TO BOB

Chairman DOUGLAS. I find that in my letter of March 18 to Director Gordon of the Budget, that I did ask him to come prepared on the subject of automatic data processing. I will ask the text of this letter be included in the record at this point.

(The letter follows:)

MARCH 18, 1964.

Mr. KERMIT GORDON,  
*Director, Bureau of the Budget,*  
*Washington, D.C.*

DEAR KERMIT: Reference is made to Mr. Staats' letter of January 25, 1964, and to mine of December 19, 1963, concerning hearings by the Defense Procurement Subcommittee.

The hearings will be held on April 16 and 21, 1964. You and your staff are scheduled to appear on April 21 at 11 a.m. in room 1202 of the New Senate Office Building.

Your testimony should cover the recommendations in our July 1963 report which referred to the Bureau of the Budget.<sup>1</sup>

Also of prime interest to the subcommittee is the development of a Federal supply and services system as contemplated by the Federal Property and Administrative Services Act of 1949. Please give us full details on the progress and plans regarding this matter. Other witnesses have been requested to testify on the subject of purchase and rental of automatic data processing equipment and we seek your views on this also.

<sup>1</sup> Report, July 1963, pp. 1-19.

Your previous testimony indicated that a revision was imminent of Bulletin 60-2 regarding commercial-industrial activities of the Government. We are interested in the new instructions and the overall progress being made in the program.

You may contact the consultant to the subcommittee, Mr. Ray Ward, on code 173, extension 8169 if additional information is needed. Please send 100 copies of prepared statements to room G-133 of the New Senate Office Building at least 1 day before your appearance.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

(See app. 5, p. 367, for reports referred to in above letter.)

(Statement of Elmer B. Staats, Deputy Director of the Bureau of the Budget, relating to above letter, begins on p. 213.)

#### REPORT ON MILITARY COMMISSARY STORES

Mr. CAMPBELL. Mr. Chairman, on the recommendation of your subcommittee and after subsequent discussions with your subcommittee staff, we have made a review of the criteria established by the Secretary of Defense for the authorization of military commissary stores located in the continental United States. Our report was submitted to you today. We did not obtain comments from the Department of Defense because sufficient time was not available before these hearings.

(See app. 4, p. 349, for report referred to.)

Since August 1953, the Secretary of Defense has been required by law to authorize only those commissary stores in the United States for which he certifies that items normally sold in commissary stores are not otherwise available to employees of the Department of Defense at a reasonable distance and a reasonable price in satisfactory quality and quantity.

#### STORES EXPANDED DESPITE STATUTORY REQUIREMENTS

In our review we found that although competitive food stores are located near most military commissary stores in the United States, commissary stores have continued in operation and increased in number despite the statutory requirement that such stores be authorized only if reasonable prices are not otherwise readily available. The authorization of commissary stores has continued each year because of the criteria established by the Department of Defense which, in our opinion, do not carry out the purpose of the law.

Under these criteria, for example, the prices at all commercial food stores surveyed in the United States during recent years have been found to be unreasonable. This is largely caused by the fact that the method of measuring reasonable prices prescribed by the Department of Defense utilizes an average markup for commissary merchandise which is obsolete and significantly understated, and also fails to recognize that the most reasonable prices are those that prevail under conditions of full and free competition.

#### ILLOGICAL CRITERIA USED

In view of the strong competition among commercial grocery stores and their resulting low profit margins, it is apparent that the criteria are illogical. We estimate that under any realistic criteria more than half of the commissary stores in the United States would be closed.



## CONGRESSIONAL INTENT TO HAVE COMMISSARIES IN REMOTE AREAS

Based on the congressional committee hearings leading to legislation covering the authorization of commissary stores, we believe it was intended that military personnel not be unduly inconvenienced or charged unreasonable prices due to lack of competition. This would tend to restrict commissary stores to remote locations.

However, despite the restrictions appearing in the annual appropriation acts for the Department of Defense since 1953, no commissary stores have been closed because of this law; instead, the number of commissary stores has increased by about 38 percent.

## LOSS OF ALMOST \$150 MILLION ANNUALLY

Commissary stores sales prices exclude major operating expenses such as pay and allowances to military and civilian personnel operating the stores or performing procurement, inspection, warehousing, disbursing, accounting, and other functions for the stores. As explained in our report, we have estimated that the military commissary stores system in the United States results in a loss to the Government of almost \$150 million a year.

Chairman DOUGLAS. \$150 million a year?

Mr. CAMPBELL. That is our estimate.

## MILITARY PERSONNEL EMPLOYED

Chairman DOUGLAS. How much military personnel is employed in the commissaries as such, as distinguished from the PX's?

Mr. RUBIN. We have some information on that supplied to us by the military. According to information furnished—this is within the United States, now—there were a total of approximately 3,000.

Chairman DOUGLAS. Military personnel.

Mr. RUBIN. 121 officers—

Chairman DOUGLAS. This is the equivalent of a regiment, then, roughly a regiment.

## THREE THOUSAND MILITARY AND EIGHT THOUSAND CIVILIANS EMPLOYED

Mr. RUBIN. There were 121 officers, 2,927 enlisted men, or a little more than 3,000 military. There were also a little over 8,000 civilians, a total of over 11,000 employed in the commissary stores within the United States, continental United States.

Chairman DOUGLAS. The combat strength, then, of the military could be increased by the equivalent of approximately a regiment if these were discontinued.

Mr. NEWMAN. Probably so.

Chairman DOUGLAS. Congressman Kowalski found many thousands of enlisted men serving as orderlies to officers, really servants to officers.

Mr. CAMPBELL. The justification advanced over the years by the military departments for maintaining a widespread commissary store system has been that the fringe benefit has become, as a practical matter, a part of the pay structure for military personnel and that, consequently, the curtailment of the fringe benefit would represent a re-

duction in remuneration and would adversely affect the morale of military personnel. While commissary store privileges are available to all military personnel, they obviously are not needed by the vast number of military personnel fed in messhalls, and such personnel would not be affected by limitations on commissary store operations.

Chairman DOUGLAS. In other words, there are very few, relatively few, enlisted men who have the benefit of the commissaries. Isn't that true? At least enlisted men in the lower grades.

Mr. RUBIN. Yes, I think that is true.

Chairman DOUGLAS. Isn't it true that the commissary is primarily available for officers who are not in bachelor quarters, and probably—

Mr. RUBIN. We did not make a study of this point.

Chairman DOUGLAS. And probably the three upper pay grades of the noncommissioned officers?

Mr. RUBIN. It is available to all, but our position is that those who use the messhalls obviously do not need the commissary, and this would be the great preponderance of the lower range.

Chairman DOUGLAS. I am trying to amplify on this statement, that the privates, the privates first class, corporals, will be fed in the messhalls, some of the buck sergeants, but the three upper grades and the officers not in bachelor quarters will be the ones who will utilize in the main these services.

Mr. CAMPBELL. Well, I think that is a fair assumption, Mr. Chairman.

Chairman DOUGLAS. What?

Mr. CAMPBELL. I think that is probably correct. We don't have the exact figures, however.

#### STORE CUSTOMERS

Mr. RUBIN. I might say we have statistics on the number of customers in the stores as to whether they are located on the base or off base.

Chairman DOUGLAS. Would you give those?

Mr. RUBIN. Yes, sir; of the number assigned to the base, there were 229,000 living on base as against 601,000 living off base, who were customers of the commissaries.

Chairman DOUGLAS. Well, I guess enlisted men are marrying more, would be more apt to marry more than in former days.

Representative GRIFFITHS. Mr. Chairman, may I ask: What in general are commissary stores supposed to provide these men with? The essentials of life, or just exactly what? That is, I have been in some commissaries that were providing some very exotic items at very low prices.

Mr. RUBIN. They provide the usual grocery lines. Not necessarily the bare essentials in grocery lines, but they are generally the same items that you will find in a chain store, for example, in a grocery.

Representative GRIFFITHS. Oh, I see. Thank you very much. I think I have had them confused with the PX.

#### PAY AND ALLOWANCES VERSUS FRINGE BENEFITS

Mr. CAMPBELL. In any event, Mr. Chairman, we believe that any inadequacies of pay and allowances to military personnel should be

brought to the attention of the Congress as a matter to be decided on its merits, apart from this possible implication of a fringe benefit, which involves the need of commissary stores.

Chairman DOUGLAS. Well, as you are aware, we passed the military pay increase, was it 2 years ago?

Representative GRIFFITHS. It was just this year.

Chairman DOUGLAS. This past year, and it is complained that by the removal of certain bonus payments which had previously existed, that some have either lost or not received the full 14-percent increase.

I would favor clearing out those inadequacies, and rectifying the situation, but I think that this matter should be very seriously considered.

Now, when I asked you to make the study last year, I drew down upon my head the denunciation of all the commissary officers in the country. I found that they have a paper which circulates amongst their personnel, and this paper nearly every month was filled with denunciations of me, that I was trying to take away the hard-won rights of the enlisted personnel, and the letters have poured in upon me from military, naval, marine wives who view me, apparently, as an enemy of their family budget.

I can say this: That there is a very strong lobby engaged in the defense of these commissaries. I certainly want to accept your suggestion that if there are weaknesses in the pay structure, these should be cured.

But I must say, when I drive across the river and see this huge commissary there, within striking distance of grocery and grocery stores, and find this justified on the ground that prices in the city of Washington are excessive, I am left somewhat cold. I don't know whether General Eisenhower had this in mind when he referred to the military-industrial complex or not. I can well understand how the Secretary of Defense doesn't wish to stir up the animals on this one.

It probably is very impolitic for a Member of the House or the Senate to raise it, but I think there is a very real question of public policy on this point.

Mr. CAMPBELL. Well, Mr. Chairman, we are raising it.

Chairman DOUGLAS. Good for you.

#### DISOBEDIENCE OF LAW

Representative CURTIS. Well, Mr. Chairman, could I in this instance express my agreement with you. I certainly agree with the statements you have made, and as you know, on previous hearings, I have backed up this need for moving into this area. The thing that distresses me more than anything else is when Congress writes the laws, and when we think we have made them clear, we find what in my judgment amounts to a deliberate disobedience.

Now I don't know what we do when this is the situation. I think there is deliberate disobedience in this area, and if the Military Establishment does not understand the importance of obedience, even though it might disagree with the conclusions that have been reached, there is a forum in the Congress, both the House and the Senate, that is available to them to make their case. But they haven't made it, and in the process, it looks like they have distorted our concepts of any intelligent accounting system or anything else. I don't want to put you partic-

ularly in a spot of agreeing or disagreeing with my conclusions, but doesn't this appear to you to be a matter of disobedience?

#### COMPTROLLER GENERAL RECOMMENDS LEGISLATION

MR. CAMPBELL. Well, Mr. Curtis, I am in complete agreement in that connection, and in view of the ineffectiveness of the restriction now contained in each annual appropriation law enacted since August 1953, deterring the continued operation and growth of military stores and in view of the fact that competitive commercial food stores are generally located reasonably close to most military installations in the continental United States, we are suggesting that the Joint Economic Committee consider recommending to the Congress the enactment of legislation to establish precise conditions under which the operation of military stores may be authorized. Also, to the extent that the operation of commissary stores may be authorized, the Congress may wish to consider providing for selling prices to be set at the level of competitive commercial retail prices in order to avoid inequities between personnel at installations having commissary stores and personnel at installations not having commissary stores, and I think that more or less answers your question.

#### LAWS VERSUS REGULATIONS

Representative CURTIS. Well, it would be a terrible thing if Congress has to, because of an inability to have the laws as written obeyed, both in spirit as well as the letter, get into the business of really writing regulations. That is not good legislation for us to go beyond writing general laws. We should set the general standards, and hopefully, the agencies concerned would write the regulations around them. I would very much dislike to see us get into that kind of detail. We had better face up to what the real problem is.

Is the Military Establishment going to continue disobedience, or are they going to start obeying the law? Or if they disagree with the law, are they going to try to get it changed? Until we get it changed, compliance is the answer.

MR. CAMPBELL. Well, Mr. Curtis, from our point of view, I think that all we can do is to disclose a serious situation, and—

Representative CURTIS. That is all you can do. Incidentally, this kind of thing could not go on if, when Congress calls attention to these things, as we do in public hearings, the press would report this to the people. This isn't the only instance, I might say, where we are up against what I regard as deliberate disobedience of the laws that Congress has written.

#### TREND TOWARD IGNORING THE LAW

In fact, if there is a trend in these times, it seems to me it lies along that line. The executive branch of the Government, in many, many instances, has ignored the law. Your office, the General Accounting Office, has called attention to this and so have congressional committees in these various areas. But of course when the press doesn't report these things, there is no backing up of Congress, or those of us in the Congress who are trying to do something in these areas, by

the people. When this kind of operation continues, those who get away with the disobedience become emboldened to do so.

I greatly fear the extent to which we are becoming a government of men rather than of laws. If this kind of discipline goes out of our system, we are really facing serious trouble ahead. In fact, I think we are facing serious troubles, already, and this is only a symptom.

Representative GRIFFITHS. May I ask a question?

Chairman DOUGLAS. Yes, indeed.

#### RELATIVE COSTS FOR FAMILY OF FOUR

Representative GRIFFITHS. May I ask, have you ever checked? What would be the difference in feeding a family of four a minimum diet from a commissary, I believe as Senator Douglas said, across the river, or the closest supermarket? What would be the cost of this?

According to published statistics of the Department of Commerce, a city worker's family of four (man, wife and two children) with a yearly budget of about \$6,000 will spend about \$1,800 for food and beverages in order to maintain a "modest but adequate" (not a minimum subsistence) level of living in a large city. The cost of purchasing these items at a military commissary store would be about \$1,400, or a difference of about \$400 per year.

#### USE OF MARKET BASKET APPROACH IN PRICING

Mr. RUBIN. I might mention the way this determination is made. They use the market basket approach of the Department of Labor in arriving at the prices in a commissary store as related to the prices in the nearest commercial stores. However, in making this comparison, they are comparing the price of the merchandise, the delivered merchandise without any additional costs at the commissary store, with the sales price in the commercial grocery. If the difference is more than 20 percent, they automatically assume that the prices are therefore unreasonable in the commercial stores.

I might mention to you what their findings were in the Washington area.

Representative GRIFFITHS. Good.

#### EIGHT COMMISSARIES IN WASHINGTON AREA

Mr. RUBIN. There are eight commissary stores in the Washington area, and the commercial prices were considered to be 35 percent, 38 percent, and 39 percent higher than the price in a commissary store, and therefore more than the 20-percent differential.

#### THREE-PERCENT SURCHARGE

I might also mention that this 20-percent differential is not used when they sell items in a commissary store. This price is only used for comparison. The customers in a commissary store pay the merchandise price plus a 3-percent surcharge. They do not pay this 20-percent differential.

Representative GRIFFITHS. But having discovered the 20-percent differential, they can then charge them the cost of the item plus a 3-percent increase. Is that right?

Mr. RUBIN. That is right. The reason for the 20 percent differential is to determine whether or not a commissary store may be operated.

Representative GRIFFITHS. If it is unreasonable.

Mr. RUBIN. If the differential is less than 20 percent, the military may not operate one under their criteria.

#### VARIOUS COSTS OMITTED IN PRICING

Representative GRIFFITHS. But there, as you say, in discovering the differential, they do not include in a commissary the overhead.

Mr. RUBIN. No.

Representative GRIFFITHS. There is no rent included, no charges of the services of collection.

Mr. RUBIN. No charges.

Representative GRIFFITHS. Or any heat or any other such thing.

Mr. RUBIN. It is the cost of the merchandise as delivered. The merchandise invoice price.

Chairman DOUGLAS. Do I understand that the prices are wholesale price plus 3 percent?

Representative GRIFFITHS. Plus 3 percent.

Chairman DOUGLAS. Who pays for the salaries of the enlisted men and officers? The Government?

Mr. NEWMAN. You and I as taxpayers.

Chairman DOUGLAS. Who pays the salaries of the civilian employees?

Mr. NEWMAN. The same people.

Chairman DOUGLAS. Who furnishes the rent?

Mr. NEWMAN. The U.S. Government.

Chairman DOUGLAS. And we are talking simply about the commissaries in the United States.

Mr. CAMPBELL. Only commissaries in the United States. We are not talking about overseas.

Chairman DOUGLAS. And you are not recommending closing commissaries in relatively isolated places, but simply in relatively populated places where there are competitive private stores?

Mr. CAMPBELL. Yes, sir.

Representative GRIFFITHS. I would like to ask you further: In those instances where they found a 35-percent overcharge; that is, it is 35 percent higher than they considered the reasonable price, does that mean that we are permitting them to buy from commissary \$100 worth of groceries at \$65? \$65 plus 3, or \$68?

Mr. RUBIN. We were permitting them to pay \$100 for merchandise that they would be paying \$135 for in a commercial store. It is \$100 plus 3, a \$3 surcharge.

Representative GRIFFITHS. Well, that is quite a little increase in salary.

Chairman DOUGLAS. This is better than food stamps.

Representative GRIFFITHS. Yes; it is.

#### TRANSPORTATION AND UTILITY COSTS ARE ADDED

Mr. CAMPBELL. Mr. Chairman, I should correct the record. In addition to the cost of the merchandise, there is the cost of bringing

it in and the utility charges, which are not too substantial. Otherwise, all charges are borne by the Government.

TOTAL SALES INSIDE UNITED STATES ABOUT \$730 MILLION

Chairman DOUGLAS. Well, your report on commissaries (see p. 361) gives the total volume of sales inside the United States as \$729,782,000, or just short of \$730 million, and this, probably at ordinary retail, would cost probably close to a billion dollars.

Mr. RUBIN. That is right, actually around \$950 million.

Mr. CAMPBELL. That is a good estimate; yes.

Chairman DOUGLAS. And amounts therefore to at least not far from \$220 million.

Mr. NEWMAN. Yes, sir.

Chairman DOUGLAS. These are just rough estimates.

Representative CURTIS. In other words, the \$150 million loss at which the commissaries are operating is not the complete figure, then, as far as the costs.

Mr. CAMPBELL. No; our figure of the loss is the loss to the Government.

Representative CURTIS. That is right. That is the actual additional money we have to put in. But the salaries we are paying and other costs are not computed.

Mr. RUBIN. Yes; they are included in the \$150 million.

Representative CURTIS. They are included in the \$150 million?

Mr. RUBIN. \$150 million basically represents the difference in price between a commercial price in effect in a store and the price in the commissary, less the amount that is charged in the form of a surcharge to the customer.

Representative CURTIS. Yes; but not all items are included. When you figure \$150 million loss, you are not including all costs in it, or are you?

Mr. CAMPBELL. They are generally included. I think you are trying to reconcile it with the \$220 million.

Representative CURTIS. That is right.

Mr. CAMPBELL. The difference between the \$150 million loss and the \$220 million represents advertising, sales promotion, profit, and so forth, that are not involved in commissary store operations.

Representative CURTIS. Could I ask a collateral question?

Chairman DOUGLAS. Yes.

TAX BASE EROSION OF GOVERNMENT COMMERCIAL-TYPE OPERATIONS

Representative CURTIS. Mr. Campbell, the commissary situation is one of these programs, a commercial-type operation of Government, that we have been interested in for some time—roasting coffee, making paint, and so forth. One of the points that I made is that, among other things, the fact that Government in a multiplicity of businesses erodes the tax base, and as the commissary situation shows here, it uses tax money in so doing.

Now, I think this case history also points out that there is a tendency, when Government agencies are in this, to justify their operations on the basis of cost. But when we analyze the cost reports, they are

deficient in that all costs, both direct and indirect, are not included. This is the situation we have here.

#### DIFFICULT TO INCLUDE ALL COSTS

In fact, it is pretty difficult to include all costs, such as overhead, building, other improvements, depreciation, retirement costs, plus in lieu of taxes for sewers, streets, roads. Also, a reasonable profit would have to be included, because in the private sector, you would have to pay for capital, and some capital would be used here.

#### MICROWAVE SYSTEM OF RECLAMATION SERVICE

Now, the point I am getting to is that another situation has come to my attention. The reclamation service plans to install a microwave system for the North Platte-Missouri Basin project. Now evidently, the telephone companies whose service areas are involved believe they should supply the service, and the data which has been supplied to me indicates the costs are about the same if taxes are not considered.

#### COST COMPARISONS—INCLUSION OF TAXES

Now I also understand the General Accounting Office has issued two decisions which indicate that taxes need not be considered in making these evaluations. (See p. 222.)

It worries me that that should not be considered, because I would think certainly the local taxes which would cover the costs of wage, fire protection, etc., are important.

In asking this question, I also want to bring this matter formally to your attention. Possibly you already have studied this, but I would like you, for the record, if the chairman approves, to reply to this committee at some later date and give us your studies of this. Have you been studying this?

Mr. CAMPBELL. I think that we may have considered it, Mr. Curtis. Representative CURTIS. It has, so it is in the process.

Mr. CAMPBELL. Is that correct?

#### SPECULATIVE NATURE OF TAXES IN BIDS

Mr. KELLER. I believe the case has been either submitted to us or discussed with us, Mr. Curtis. Also, we have one or two decisions on the question of including taxes in evaluation of bids and we have not allowed such items to be included, because they are speculative; you can't tell how much tax is going to be paid and when, so we have excluded the consideration of taxes in evaluation of bids under the competitive bid system.

Representative CURTIS. The main tax I am concerned about is the local tax, which covers utilities, without which you can't have a microwave system or anything else. You can't have a Government installation without the infrastructure—as they now call it—of communications, streets, police protection, and so on.

I would think that that would be a very important factor. Could you review your judgment on this?

Mr. KELLER. We would be very glad to, Mr. Curtis, and will give you or the committee a report.



Representative CURTIS. Yes. In the material I have, it just seems that instead of moving the Government out of some of these areas, which I hope we will continue to do, the Reclamation Service is moving in. Nevertheless I have been pleased with Secretary McNamara's reports on the military.

Mr. KELLER. We will be glad to give you a report.

Chairman DOUGLAS. Thank you.

(The letter and report following were subsequently submitted.)

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, June 5, 1964.

B-151192.

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

DEAR MR. CHAIRMAN: During the hearings of the Subcommittee on Defense Procurement of the Joint Economic Committee on April 16, 1964, Congressman Curtis raised a question concerning the proposed procurement by the Bureau of Reclamation of a microwave radio system for the North Platte-Missouri River Basin project.

A similar proposed procurement was considered by this Office in 1963 on the basis of a protest from the Mountain States Telephone & Telegraph Co. This protest was the subject of our decision of May 17, 1963, B-151192, and a subsequent letter to the company of July 17, 1963. A copy of each is enclosed.

In neither the decision nor the letter was there a ruling on the question of the inclusion of taxes as an evaluation factor in determining whether there should be a Government-owned and operated system or whether the services should be obtained commercially on a full-time service basis with company-owned, operated, and maintained facilities.

We are also enclosing copies of our decisions B-150886, dated July 15, 1963, and B-151628, dated September 16, 1963, in which we held, in effect, that income tax benefits accruing to the Government should not be considered in evaluation because to attempt to isolate such a factor, as it might apply to each individual bidding bid or proposals for the award of Government procurement contracts because to attempt to isolate such a factor, as it might apply to each individual bidder, would involve considerable speculation and would result, in most cases, in confusion and uncertainty, and would place an unbearable, if not impossible, administrative burden on Government procurement officials. These decisions, however, involved competition between private concerns competing for Government business. They would not necessarily be applicable to a situation involving competition between the Government and private enterprise.

We wish to point out that Bureau of the Budget Bulletin No. 60-2, dated September 21, 1959, which sets forth the policy of the executive branch regarding competition between the Government and private enterprise contains the following provision:

"3.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, the cost of self-insurance (even though it is unfunded), and exemption from Federal, State, and local taxes 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."

In our opinion the provisions of Bulletin No. 60-2 clearly require taxes to be taken into consideration in determining Government operation versus commer-

cial operation. However, as we held in the last paragraph of our decision of May 17, 1963, the bulletin is one of policy and does not have the force and effect of law. Therefore, the provisions of the bulletin are not mandatory for the purposes of determining legal rights and responsibilities.

We have delayed furnishing a report to your committee pending a determination by the Bureau of Reclamation as to proposed procurement of the microwave radio system for the North Platt-Missouri River Basin project. To date no decision has been made by the Bureau. We understand that should the tax question become a determining factor in evaluating the comparable costs between Government and private ownership and operation it is probable that the question will be brought to our attention for a ruling. If this is done we will, of course, inform you of our decision in the matter.

A copy of this letter is being furnished to Congressman Curtis.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

---

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, May 17, 1963.*

B-151192.

THE MOUNTAIN STATES TELEPHONE & TELEGRAPH CO.,  
*Care of Akolt, Shepherd & Dick,*  
*Denver, Colo.*

GENTLEMEN: Further reference is made to your letter of April 1, 1963, with enclosures, and to your subsequent letters of April 16 and 30, 1963, protesting the award of a contract to other than a commercial carrier under specifications No. 5853, issued by the Bureau of Reclamation, Department of the Interior, for a microwave radio system on the Colorado River storage project.

The record shows that, based on the requirement for a microwave communication system for the supervision and control of the Bureau's power generating and transmission facilities in the five-State area of Utah, Wyoming, Colorado, Arizona, and New Mexico, the cited specifications invited bids for the construction of a microwave system which, after maintenance by the contractor for a period of 1 year, would be Government owned and operated. Bidders were notified thereunder that alternate proposals were invited to furnish the required microwave services on a full-time service basis with company owned, operated, and maintained facilities. The specifications further provided that—

"The Government reserves the right to award a contract either to the lowest acceptable bidder for the construction of a Government-owned system under these specifications or to negotiate a contract with the firm submitting the most desirable proposal for the furnishing of a full-time service as best suits the interests of the Government."

The evaluation factors for consideration in comparing service-type proposals with the bids for a Government-owned system were set forth in paragraph 40.B of the specifications, as amended.

The abstract of bids shows that of the seven bids received for construction of a Government-owned microwave system, the low bid of \$2,278,364 was submitted by Stromberg-Carlson, a Division of General Dynamics Corp. Evaluation, on the basis of the factors in paragraph 40.B of the specifications, of Stromberg-Carlson's bid and your service-type proposal by a task force of Bureau engineers resulted in an estimated annual cost to the Bureau of \$227,600, based on a 50-year period, for a Government-owned system as compared to a corresponding estimated annual cost to the Bureau of \$405,800 for the same period under your service-type proposal. Based on the indicated substantial savings which will result from the construction of a Government owned and operated system, it is administratively proposed to make award on that basis to the low bidder, Stromberg-Carlson.

Two grounds are stated for your protest: (1) that award to other than a common carrier would be contrary to section 303 of the Federal Property and Administrative Services Act (41 U.S.C. 253) which requires that award under advertised procurements be made to that responsible and responsive bidder whose bid "will be most advantageous to the Government, price and other factors considered," and (2) that such an award would be contrary to Bureau of the Budget Bulletin No. 60-2, which you claim has the force and effect of law by virtue of 40 U.S.C. 486.

Your first ground of protest is necessarily predicated on the assumption that the Government is obligated to make award under specifications No. 5853 to the bidder or proposer submitting the lowest price, regardless of whether that price is for Government or private ownership and operation. We find no basis for such such an assumption. The two methods of operation are mutually exclusive alternates, and the specifications specifically reserve to the Government the right to decide after the submission of bids and proposals which alternative it will select. While it is true that paragraph 40.B of the specifications lists the factors which will be considered by the Government in deciding whether to select a Government or a privately operated system, it is clear that this information was furnished only for the information of prospective contractors and cannot operate to destroy the expressly reserved right of selection between the two systems. Indeed, even if the entire specification were to be considered as an advertised procurement, which its terms show it not to be because of the provision for negotiation of a contract if the private operation alternative is chosen, bids on one alternative could not properly be evaluated against bids on the other, since this would violate one of the fundamental principles of advertised competitive bidding; namely, that all bidders must bid on the same thing. In such a situation, bidders would be competing only with other bidders on the same alternative. See *Attorney General ex rel. Cook v. Detroit*, 26 Mich. 263, 96 ALR 714-716.

We now come to your second ground of protest, which is, in effect, that the Government is required by reason of BOB Bulletin No. 60-2 to contract on the basis of private ownership and operation. We may say that we find no support for your contention that 40 U.S.C. 486, section 205 of the Federal Property and Administrative Services Act, gives the bulletin the force and effect of law. However, even if this were so, the terms of the bulletin are not, as you impliedly contend, mandatory in situations such as here involved. Paragraph 2 thereof states it to be the general policy of the executive branch of the Government to favor procurement of its needs from private enterprise. Thus, the propriety of a determination by an executive agency as to whether services or products should be obtained under contract with private enterprise or through the use of Government-owned facilities is not a matter permitting of a ruling in terms of legal rights and responsibilities. We therefore find no legal basis for objection to the proposed administrative action, and we must decline to rule upon the policy question involved, which we deem to be a matter for resolution within the executive branch.

Very truly yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

---

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, July 17, 1963.*

B-151192.

THE MOUNTAIN STATES TELEPHONE & TELEGRAPH CO.,  
*Care of Akott, Shepherd, & Dick, Esqs.,  
Denver, Colo.*

GENTLEMEN: Reference is made to the letter dated June 25, 1963, from J. H. Shepherd, Esq., of your office, requesting clarification of our decision dated May 17, 1963, concerning your protest and the protest by the Union Telephone Co. against the award of a contract to other than a commercial carrier under specifications No. DC-5853, issued by the Bureau of Reclamation, Department of the Interior, for the construction of a multichannel microwave radio system to serve the facilities of the Colorado River storage project.

It was stated in your letter of June 25, 1963, that it is not your intention to seek reconsideration of our decision but rather to bring to our attention certain questions which it raises with respect to the future conduct of other Government agencies which may be faced with similar requirements for procurement.

The procuring agencies of the Federal Government are likely to be faced with the question whether purchase or lease of communication facilities best serves the national interest on many occasions in the future. The agency involved will have to resolve the issue on its merits as a legitimate exercise of executive discretion, using the criteria of efficiency, economy, and public policy on each such occasion. We agree with you that the decision of May 17, 1963,

should not be considered as "carte blanche" to executive agencies of the Government for ignoring Bureau of the Budget Bulletin 60-2.

In your letter dated June 25, 1963, reference is made to a Department of Interior news release dated May 22, 1963, issued by the Bureau of Reclamation which states:

"An evaluation of the Stromberg-Carlson bid on a federally owned communications system determined that Federal ownership and operation would be the most advantageous. The Comptroller General of the United States concurred with the Bureau of Reclamation's conclusions after a review made at the request of the Mountain States Telephone & Telegraph Co., of Denver, Colo., which had submitted a service offer."

Any implication in the news release that the Comptroller General determined, or concurred in a determination by Interior, that Federal ownership and operation would be more advantageous than service by a commercial carrier is erroneous. Basically, the controversy in this case involved the policy question whether the Government's requirement for communications service could best be met through a Government-owned or a privately operated system. In the concluding paragraph of our decision of May 17, 1963, we declined to rule upon such policy question, since, in our opinion, the matter is properly for resolution within the executive branch of the Government. For the purpose of our decision it was unnecessary for us to make any evaluation of the comparative cost of a Government-owned versus a privately operated system. We did not go into the merits of the question as to which method of operation would be cheaper, and we did not intend to imply by our decision that we had reached any conclusion on this point.

Very truly yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

---

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, D.C., July 15, 1963.*

B-150886.

BEGGS, LANE, DANIEL, MIDDLEBROOKS & GAINES,  
*Attorneys at Law,*  
*Pensacola, Fla.*

(Attention: Mr. Bert H. Lane.)

GENTLEMEN: We refer to your letter dated May 14, 1963, and to that of your client, Gulf Power Co., dated February 19, 1963, concerning your client's protest against the award of a contract by the Department of the Air Force to Choctawhatchee Electric Cooperative, Inc. (Chelco), for electric power requirements for the SPADAT radar site at Eglin Air Force Base, Fla., under request for proposals—Electric Power Service, Project 496LY1.

The Department of the Air Force reports that the SPADAT radar site location is such that Gulf Power and Chelco are both geographically located to serve the site and that both firms are currently serving certain areas on the Eglin Air Force Base reservation. Prior to issuing a request for proposals, the Florida State Railroad Public Utilities Commission, Tallahassee, Fla., was contacted by the Air Force to determine if service to the radar site area would be limited to a specific firm by franchise. It was learned that territorial franchise did not exist and the choice for the source of power would be that of the customer.

Due to advance publicity on the construction of the radar facilities, Chelco and Gulf Power both expressed their desire to furnish the power requirements for the site. The Air Force reports that there existed no basis for selection of either firm for negotiation of a contract on a single source basis and, therefore, a determination was made to request technical and cost proposals from both firms.

Technical and cost proposals were received from Chelco and Gulf Power on November 14, 1962, and submitted to the Air Force civil engineers for review and analysis. Due to the requirement for a high degree of reliability in power supply for SPADAT, technical review of proposals was not completed until continued negotiation with both firms produced all possible information on capability of each firm, as well as the most reasonable rate schedule each firm could offer. The Air Force reports that a review of the proposals by Air Force engineering personnel established that either firm had the capability to meet the requirements of the Air Force. It was concluded that from the standpoint of overall costs to

the Air Force, Chelco offered the most advantageous rate schedule. Award of the contract was therefore made to Chelco on February 18, 1963.

Gulf Power's letter of February 19, 1963, contends that the contract is contrary to the best interests of the United States. Gulf Power points out that it is an investor-owned electric utility serving customers in the 10 westernmost counties in northwest Florida under the jurisdiction of, and subject to approval of, the Florida Railroad and Public Utilities Commission, the Federal Power Commission and the Securities and Exchange Commission. On the other hand Chelco is a rural electric cooperative organized under the laws of the State of Florida solely "for the purpose of supplying electric energy and promoting and extending the use thereof in rural areas," and whose rates and charges are not regulated.

Gulf Power states that it has assumed the responsibility to supply, and has supplied, the electric power requirements of the Eglin Air Force Base complex since its inception in 1941. The SPADAT project requires service at 115 kilovolts and Gulf Power has operated a 115-kilovolt transmission system since 1926 and the Eglin complex is presently supplied by three such 115-kilovolt Gulf Power Co. lines. It is pointed out that since Chelco does not now have any 115-kilovolt facilities in northwest Florida, major additions to the cooperative system would be required for them to serve the 4,000-kilovolt-amperes load of the SPADAT project; that the nearest 115-kilovolt source available to Chelco is the Alahama Electric Cooperative in the vicinity of Opp, Ala.; and that the extension of 115-kilovolt lines from Opp to the project site plus the installation of diesel or other type generating equipment of 4,000-kilovolt-amperes rating nearby, together with a connecting 115-kilovolt line, are conservatively estimated to require funds in the amount of approximately \$1,150,000. In this connection, your letter of May 14 enclosed a news release by the Department of Agriculture dated April 30, 1963, which states that the Rural Electrification Administration has approved a loan of \$2,225,000 to Chelco to enable the cooperative to serve the SPADAT load at Eglin Air Force Base. You state that this loan will mature in 35 years and will carry a 2-percent interest charge whereas the Government's cost for these funds will be 4 percent. You also enclose a computation sheet showing that Chelco will pay the United States \$868,149 as interest on this loan over a 35-year period and contend that the Government will pay its bondholders for use of this money approximately twice this sum so that the certain net loss to the Government over the period of the loan is almost \$900,000. You state that the difference annually between what the Air Force would pay Gulf Power for energy and what it has agreed to pay Chelco is \$39,000 and that the "cost of money" loss to the Government in each of the first 5 years of the electric service contract is \$44,500.

Gulf Power's letter further states that although the tax component of materials and supplies ordinarily purchased by the Government would be difficult, if not impossible, to determine, such is not the case in the purchase of electric service from a regulated utility. It is alleged that the income tax component of payments to a regulated utility for electric service can be readily and definitely determined. On the other hand, it is noted that no income tax payments accrue to the Government from a rural electric cooperative. Gulf Power contends that if it were awarded the contract the incremental tax payment returned to the Government is conservatively calculated to be \$43,500 per year.

In view of the above considerations, you contend that because the Air Force did not take into account interest and income taxes in evaluating the proposals, the award of the contract to Chelco did not result "to the best advantage of the Government, price and other factors considered" as provided in paragraph 3-101 of the Armed Services Procurement Regulation (ASPR).

In addition to the above, you also contend that the award to Chelco is improper because the Rural Electrification Administration acted beyond the authority granted that agency under section 904, title 7, United States Code, in making the loan, previously noted, to Chelco.

In support of your contention that the income tax benefits accruing to the Government should have been considered in evaluating the proposals, you note that paragraph 2-407.5 ASPR which deals with formal advertising enumerates certain "other factors to be considered" in evaluating bids and among them are items of Federal, State, and local taxes. While none of the provisions of section III of ASPR enumerates taxes as a factor to be considered in evaluating quotations or proposals in procurements by negotiation, you say that it is reasonable to conclude that taxes are just as appropriate a factor to consider in negotiation as in procurement by formal advertising since the effect of taxes paid by the prospective contractor to the Government is the same in either case. Your letter goes on to state that:

"It can be argued convincingly that when a large load is added to an already going and efficiently operated electric utility company's system, approximately 52 percent of the revenue from that load goes to Federal income taxes—that the result is much the same as when 10 additional passengers board an already profit-making bus. However, for the purpose of this showing we have elected to pursue a much more conservative approach.

"The Federal Power Commission consistently rules that a regulated electric utility company is entitled to a 6-percent rate of return [there have been instances recently where the Federal Power Commission has ordered investor-owned private utility companies to increase their rates when negotiating new contracts with electric cooperatives so that the utility company would be guaranteed a 6-percent rate of return]. When rate of return drops below 6 percent, the utility company is entitled to adjust rates over its entire system to produce such a rate of return from the system as a whole. Rate of return is related to investment in plant and facilities. Therefore, when this SPADAT load is added to Gulf Power Co.'s system, it is inescapable that additional income taxes result. The income tax component of payments to a regulated utility for electric service can be readily and definitely determined."

In its report to us the Air Force notes that no provision is made in any statute or regulation for eliminating the competitive advantages that cooperatives borrowing from the Rural Electrification Administration are given by statute, nor are there any provisions for eliminating a tax advantage one offeror may have over another. The Air Force believes that it would be impractical to try to eliminate such advantages. In this regard the Air Force states that taxes paid by private companies are dependent upon profits and may vary from time to time because of numerous factors. Interest paid by the Government also varies from time to time, and is dependent on the type of borrowing involved. To try to isolate these factors and give them a numerical value would be quite difficult and would involve considerable speculation. In this connection, the record discloses that at the time proposals were submitted Gulf Power specifically pointed out the income tax benefits that would accrue to the Government if awarded the contract whereas Chelco specifically called attention to the fact that under its capital credits system of operation, receipts in excess of expenditures are returned to the consumers. It is stated that cash returned to Egin Air Force Base on existing Chelco service contracts has been in excess of 12 percent of the amount billed. However, the contracting officer concluded that Gulf Power's claim with respect to interest and taxes, as well as Chelco's position on returns through its capital credits system, represented intangible factors not subject to proper evaluation. Evaluation was therefore limited to comparison of rate schedules based on estimated consumption, plus a determination of capability to meet the requirement for service.

We believe that the contracting officer's evaluation of proposals was proper and that the award to Chelco was to the best advantage of the Government, "price and other factors considered" within the meaning of section 2305(c), title 10, United States Code.

Paragraph 2-407.5(e), ASPR, which deals with formal advertising, provides as follows:

"2-407.5 *Other Factors To Be Considered.* The factors set forth in (a) through (f) below, among others, may be considered in evaluating bids.

\* \* \* \* \*

"(e) Federal, State, and Local taxes (see section XI)."

Section XI deals with excise taxes and the provisions contained therein are designed to take care of contingencies as to the applicability of such taxes. Excise taxes as distinguished from income taxes, are generally measured in terms of a specified percentage of the sale price of the goods or services sold and also, unlike income taxes, they are generally taken directly into account by bidders when calculating their bids so that the price bid will usually include an amount equal to the tax imposed. The constitutional uncertainty of a great variety of State and local taxing statutes as applied to Government contractors obviously poses the likelihood of large contingency factors in the pricing of fixed-price type contracts. Uncertainty of increases in tax rates in those procurements involving a long performance period and uncertainty as to the imposition of new taxes also increases the tax-contingency factor in prices offered on Government contracts. Section XI of ASPR provides procedures and contract clauses to be included in invitations for bids and requests for proposals which are designed to make certain, by way of price adjustments and escalation,

that the Government will not be charged with excessive tax contingencies and will not be required to assume the burden of inapplicable taxes. From these considerations, it is apparent that the Federal, State, and local taxes enumerated in ASPR 2-407.5 as "other factors to be considered" were not meant to embrace income taxes which are not usually taken directly into account by bidders as a price component in computing their bids.

While we recognize, as does the Department of the Air Force, the competitive problem that Gulf Power has with respect to competition with cooperatives like Chelco, we must also recognize that the competitive advantages enjoyed by such cooperatives are the result of tax and loan assistance legislation enacted by the Congress. We are aware of no statute or regulation which provides for consideration of possible income tax benefits or interests costs to the Government as factors in selecting a contractor for award. If such factors were to be introduced into the evaluation process, it would result, in the vast majority of cases, in confusion and uncertainty and would place an unbearable, if not impossible, administrative burden on procurement officials. In that connection, we expressly held in B-137093, May 8, 1959, involving a negotiated contract, that income taxes to be paid by a domestic firm if awarded a contract for construction of a dam in Taiwan could not properly be taken into account in evaluation of proposals. (The successful contractor was a Panamanian firm not subject to U.S. income taxes.) We noted that since taxes paid to the Government must be based on the total of the firm's operations for the year (and in some cases for a longer period), it was difficult to see how such a factor could be reduced to a sufficiently definite form at the time of award to permit its consideration in evaluating bids or contract proposals. See also 35 Comp. Gen. 282 where the same result was reached with respect to interest charges incident to progress payments. The protesting bidder contended that progress payments elected to be received by the successful bidder would cause more administrative work than one final payment upon completion and that under a progress-payment provision the Government would incur additional cost by way of interest as a result of being required to pay a sum of money sooner than it would otherwise be required to pay. The protestant further contended that the additional interest was capable of computation, since it could be determined with reasonable certainty the time when the Government would be required to make the progress payments; that the interest on such payments, at the rate of interest that the Government pays on its borrowed money, would far exceed the difference between its bid and the successful bid; and that the Government was required—as you contend in the case before us—to take such cost into consideration in evaluating bids under the phrase "other factors" contained in the invitation. In rejecting these contentions we stated:

"It is our opinion that, in the absence of express provisions and specific criteria set forth in the applicable invitation or regulations, the cost of additional administrative expense and interest which might be involved in making progress payments as against a lump-sum payment upon final delivery, is too indefinite and speculative to be made an evaluation factor and that for the administrative office, in this instance, to have evaluated the bids on the basis of the bidder's election to take progress payments would not have been justified. As we hold in 33 Comp. Gen. 108 with regard to the element of prospective depreciation on automotive equipment, to introduce such indefinite and speculative factors into bid evaluations would eventually lead to all kinds of confusion and uncertainties in the administration of the advertising for bids statutes and is not contemplated or authorized under the law."

While we realize that 35 Comp. Gen. 282 involved a procurement accomplished by formal advertising procedures, we perceive no reason why the rationale there set forth is not equally applicable to procurement by negotiation, since the need for definiteness and certainty in the evaluation process is just as great in the latter type of procurement as in the former.

Moreover, even if we were to assume, for the sake of argument, that income tax benefits and interest costs to the Government can be ascertained in advance of award with the precision and certainly required by the evaluation process, which you contend can be done and the Air Force denies, we do not think that Government procurement procedure is the proper vehicle by which to equalize a competitive situation created by legislation unrelated to procurement law. There is no legal basis either for denying an award to a cooperative like Chelco, or for taking into consideration in the evaluation of offers factors not normally considered, simply because of financial advantages granted to a particular type of business entity by the Congress. There are many existing unequal competitive situa-

tions of which the procurement laws take no notice. For example, procurement procedures do not attempt to equalize the natural competitive advantage enjoyed by a concern with respect to lower transportation costs resulting from close proximity of a plant to the required delivery point of the goods being purchased by the Government. Nor do these procedures attempt to equalize possible financial disadvantages with respect to income tax rates and tax treatment under which private individuals doing business with the Government must operate as opposed to the rates and treatment under which corporations operate. Such examples may be multiplied. If these factors, and factors of like nature, were to be given weight in the bid evaluation process so as to equalize the competitive position of bidders, that process would be fraught with speculation, confusion, and suspicion. We believe that if indirect benefits to the Government, which in most cases are incapable of advance and accurate measurement, are to be introduced into the evaluation process that result should be accomplished by legislation.

As to whether the rural Electrification Administration (REA) in making a loan to Chelco, acted beyond the authority granted it by section 4 of the Rural Electrification Act of 1936, as amended (Rural Electrification Act), 7 U.S.C. 904, this section provides, in pertinent part, as follows:

"The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans for rural electrification to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts and cooperative, nonprofit, or limited-dividend associations, organized under the laws of any State or Territory of the United States, for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service. \* \* \*". [Emphasis added.]

You contend, in effect, that the loan in question is in violation of the "central station service" limitation in section 4 because (1) Eglin Air Force Base is receiving "central station service" from Gulf Power and (2) the loan is to finance facilities which will be in competition with, or duplicate the facilities of, Gulf Power. Your letter contains a number of excerpts from the legislative history of the Rural Electrification Act in support of the proposition that the "central station service" limitation is designed to prevent duplication of facilities and competition with private utility companies.

The record discloses that the SPADAT radar site in question is to be located on range 63, Eglin Air Force Base; that range 63 has no electric distribution facilities and is approximately 4 miles from the reservation 12-kilovolt distribution system; and that during the years 1957-61 Chelco served facilities on this range but upon deactivation of the range and contract termination, distribution facilities were removed. The record further discloses that Chelco has served the eastern part of Eglin Air Force Base (the SPADAT area) for 20 years and that the nearest 115-kilovolt Gulf Power lines are about 15 miles from the SPADAT area. The record also discloses that Chelco's existing 44-kilovolt subtransmission system is incapable of handling the additional 7,500 kilovolt-ampere capacity required by the Air Force for the SPADAT site; and that Gulf Power refused to negotiate or furnish Chelco an additional supply of power to serve the SPADAT load.

It is clear from the foregoing that although both Chelco and Gulf Power serve certain areas of Eglin Air Force Base, neither is now serving the area known as range 63, the SPADAT radar site, that such site has no electric distribution facilities and apparently is approximately 4 miles from the nearest distribution facilities and that these facilities are owned by Chelco. It is also clear from the facts set forth about that Gulf Power would have to extend its lines approximately 15 miles to serve the SPADAT radar site. Therefore, it would not be unreasonable to conclude that range 63 of Eglin Air Force Base is not receiving central station service.

In view of the foregoing, we would not hold that the use of REA loan funds for the purposes of serving the SPADT radar site on range 63, Eglin Air Force Base, would violate the "central station service" limitation provision of the Rural Electrification Act of 1936, as amended.

Sincerely yours,

JOSEPH CAMPBELL,  
Comptroller of the United States.



COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, September 16, 1963.

B-151628.

FLORIDA POWER CORP.,  
St. Petersburg, Fla.

(Attention: Mr. W. J. Clapp, president).

GENTLEMEN: Reference is made to your letter of May 21, 1963, and enclosures, protesting against the proposed award of a contract to the city of Gainesville, Fla., for the furnishing of electric power to the Veterans' Administration hospital located in Gainesville.

You state that during the course of your company's submission of bids for this project, you were told by the Veterans' Administration that in evaluating the bids of your company and the city of Gainesville for an award of the contract, the overall Government policy is not to consider income tax payments in evaluating procurement costs. Your letter goes on to state that:

"We wish to point out to you in particular the fact that, in the Veterans' Administration evaluation, they give credit and allowance to the city of Gainesville for furnishing sewer, water, fire alarm connections, and parking lights. This type of service the city, of course, under law, must extend to all citizens and entities within the city and, therefore, as a matter of fact, it is no additional benefit to the Federal Government but what the Federal Government would receive if the contract were awarded to our company.

"Then please note that, at the end of their evaluation, they give no consideration to the Federal income taxes which would be paid by our company upon the revenue to be received from the hospital.

"Our company's Federal income tax has averaged 17.19 percent on gross revenue during the past five years. This percentage applied to the computed annual electric service bill of \$182,673.37 \* \* \* results in a figure of \$31,383.23. The net annual cost of service from our company would therefore be \$151,290.09 as against a cost of \$170,350.72 from the city of Gainesville.

"It is our firm belief that, in fact and upon basic moral principles, there should and could be no such Government policy of not giving consideration to income-tax payments in evaluating procurement costs. It is upon this basis that we are bringing this matter to your attention and by this letter requesting you to make an appropriate investigation into this matter."

The record before our Office indicates that negotiations for the subject contract with both the city and your company first began in November 1961. Since that time numerous proposals have been submitted on various bases by both your company and the city but for our purposes we need not detail here the long history of these negotiations. The Veterans' Administration (VA) reports that its objective was to obtain power for the project on a basis which would be most advantageous to the Government but each time it attempted to close negotiations, a new proposal was submitted by the other supplier. This resulted in the matter being kept open long beyond the date when it should have been closed. It is further reported that on April 26, 1963 in order to resolve the problem expeditiously and in fairness to all, the VA requested sealed proposals from the city and your company. These proposals were received on May 14, 1963.

The following provisions, among others, were set forth in the request for proposals:

"Your proposal may be on the basis of supplying power at either primary or secondary voltage. If you elect to supply primary power, your proposal should indicate the voltage you intend to furnish. If you elect to supply secondary power, it should be delivered at a utilization voltage of 266/460 volts. You should also provide voltage regulation as follows: fluctuation of secondary voltage not to exceed 3 percent plus or minus; and fluctuation of primary voltage not to exceed 10 percent plus or minus.

\* \* \* \* \*

"Provided the proposal made herein is accepted and a contract awarded therefor, the following equipment and/or services will be provided at no cost to the Government:

"(Itemize all services and all major equipment, and indicate location of equipment. Include a sketch, by a one-line diagram, showing complete electrical scheme for servicing the hospital.)

"Your proposal should be complete in all respects, including a statement of any special services, equipment, facilities, and/or conditions which should be given consideration in its evaluation. \* \* \*"

In a letter to our Office dated June 12, 1963, the VA reports that the city of Gainesville offered to furnish without charge to the Government, the necessary sewer, water, and fire alarm connections; to furnish, install, and maintain street lighting on Archer Road along the front of its property; and to install a traffic signal at the main entrance. The VA states that since they would normally expect to reimburse the city for the sewer, water, and fire alarm connections, the estimated cost of these (\$116,900) was included in evaluation of the city's proposal but the cost of the other items which were off the Government's property were not included. It is also stated that the city offered to provide approximately \$25,000 worth of electrical equipment.

With regard to your proposal the VA reports that you offered to furnish and maintain a complete transformer station and to install ducts which the Government would otherwise have to provide, all at no expense to the Government. The VA estimates the cost of these items as \$147,500. You also offered to meter the power on the secondary side and to absorb the transformer losses which would amount to over \$4,000 a year.

It is further reported that the city of Gainesville offered a flat 10-percent discount on the charges given in its "large power electric rate schedule rate H" whereas your proposal would add a small "billing adjustment" based on fuel costs. The report then states that:

"After taking all of these various capital expenses and recurring costs into account, it was the opinion of our engineers that the annual saving to the Government by purchasing power from the city of Gainesville would be in excess of \$12,000 a year."

The VA did not consider income tax payments that would be made by your company if you received the contract in evaluating the proposals.

Subsequent to the submission of the above report, we requested additional information from the VA with respect to the formula used in the evaluation of proposals. At the time of our request for the additional information we raised certain questions concerning the propriety of including in the evaluation process, the estimated cost of sewer, water, and fire alarm connections. By letter dated August 21, 1963, the VA furnished us the following information:

"In reviewing the proposals received from the city of Gainesville and the Florida Power Corp., we feel that the award to the city of Gainesville can be justified without regard to the payment of Federal income taxes, or the furnishing of unrelated services by the city, such as sewer, water, and fire alarm connections.

"The basis for this contention is as follows:

Estimated annual costs:

City of Gainesville:

Annual charges-----	\$163, 184. 52
Maintenance of VA transformers, etc-----	2, 560. 00
Transformer losses-----	4, 382. 20

Total-----	170, 126. 72
Florida Power Corp.: Total annual charges-----	182, 673. 37

Annual cost to VA:

City of Gainesville-----	170, 126. 72
Florida Power Corp.-----	182, 673. 37

Difference-----	12, 546. 65
-----------------	-------------

"Therefore, the estimated gross annual saving by purchasing electric power from the city of Gainesville would be \$12,546.65.

"Initial VA construction (replacement cost):

"In order to take advantage of the city's proposal, it would be necessary for the Government to install transformers, switch gear, outside ducts and cable, and other related equipment which would not be necessary if power were purchased from the Florida Power Corp. The estimated cost of this construction and equipment is \$135,500. (Estimated total cost of \$147,500 for equipment less \$12,000, the value of one transformer which would be provided by the city.)

"Based on the quality of material and workmanship required for this installation, we believe it reasonable to expect this equipment to have a life expectancy of at least 30 years, under ordinary operating conditions and with

proper maintenance. Therefore, depreciation, or the replacement cost of all the required equipment, including the transformer furnished by the city, would be at the rate of about \$4,920 per year.

Net annual costs (considering annual replacement cost) :

Florida Power Corp.....		\$182, 673. 37
City of Gainesville:		
Total cost.....	\$170, 126. 72	
Replacement cost.....	4, 920. 00	
		<hr/> 175, 046. 72
Difference.....		<hr/> 7, 626. 65

"As indicated above, the estimated net annual cost of electric power, if purchased from the city of Gainesville, would be approximately \$7,625 per year less than if purchased from the Florida Power Corp.

"You will note that the above calculations, based on rates established by the city of Gainesville and the Florida Power Corp., do not take into consideration income taxes paid by the Florida Power Corp.; the nonrelated service connections or electric light standards to be provided by the city of Gainesville; nor interest paid by the Government on the cost of initial construction and equipment which it would have to provide. This is based on our interpretation of your recent ruling in B-150886, July 15, 1963."

In our decision of July 15, 1963 (B-150886), copy enclosed, we held that income tax benefits accruing to the Government should not be considered in evaluating proposals for award of Government contracts. For the reasons stated in that decision we feel the VA's action in this respect was proper. Moreover, on the basis of the evaluation as set forth in its letter of August 21, as quoted above, we think that an award of the proposed contract to the city of Gainesville could not be questioned by our Office since it appears that the city has submitted the most advantageous proposal to the Government even disregarding the benefit of the estimated cost of the nonrelated service connections which we understand would be assessed by the city if not offered free of charge to the Government.

Accordingly, your protest against the proposed award of a contract to the city of Gainesville is denied.

Very truly yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

There is one statement that I would like to have corrected.

On page 2 of your report on commissaries, the last paragraph, the opening sentence begins as follows:

At your request—

and since the letter is addressed to me, that presumably means me—the findings in this report have not been submitted to officials of the Department of Defense for comment.<sup>1</sup>

Now, I am not aware that I made any such request that they should not submit this to the officials of the Department of Defense. I wonder if we would have the record cleared on that point. I think that may have grown out of the conversations which you had with Mr. Ward, but we did not wish to have this kept back from the Department of Defense.

Mr. NEWMAN. Mr. Chairman, in preparation of the report, there was, I would say, a mistake on my part. The end of the sentence should have had an added clause, stating:

Because sufficient time was not available before the scheduled hearings, April 16.

Chairman DOUGLAS. Yes. In other words, I was not trying to keep this from the Department.

Mr. NEWMAN. I regret this happened.

Chairman DOUGLAS. Oh, that is all right. I know how these things happen. Just to have the record correct, that's all.

<sup>1</sup> See p. 350.

Now, since the Department of Defense has not seen this report, I am not going to ask them to comment upon it at this time, but is there anyone here representing the Department of Defense?

General BERG (Brig. Gen. William W. Berg, U.S. Air Force). Yes, sir.

Chairman DOUGLAS. I wonder if you would be willing to go over the report and to review it, have it reviewed, and to respond to this committee so that your reply may be included in the printed hearings along with the text of the report itself?

General BERG. I don't see any reason why we can't do that.

Chairman DOUGLAS. Thank you very much, and I will ask unanimous consent that the report be printed in the hearings.

(Department of Defense review and response to GAO commissary report referred to appears in app. 4, p. 363.)

Representative GRIFFITHS. Could I ask one other question?

Chairman DOUGLAS. Yes.

Representative GRIFFITHS. Could I ask you, is there a place in the United States where there is a military establishment where they do not have a commissary?

Mr. CAMPBELL. I don't know.

Mr. RUBIN. I don't know of any. There may be. I don't know.

Representative GRIFFITHS. Well, if there is such a one, will you sometime figure out what they are paying for groceries, as opposed to others who have commissaries and restaurants?

Mr. RUBIN. I should like to point out that even though there is no commissary at the particular installation, the people who work there are entitled to use any other commissary within any distance. For example, there is no commissary at the Pentagon, which I think is considered a military installation.

Representative GRIFFITHS. But there are six right around there.

Mr. RUBIN. There are eight around the Washington area which are used by everybody stationed in the Washington area.

Representative GRIFFITHS. Thank you.

Thank you very much.

#### PRIORITIES IN IMPROVEMENTS

Chairman DOUGLAS. Having said that I had no more questions, I find that I do have more questions.

Mr. Campbell, during the past 4 years, you have given this committee around 300 reports dealing with the problems of military procurement and handling of supplies. Now, from these reports, from your experience, what would you say are the priority needs and ways in which these activities could be improved?

#### GOVERNMENT-FURNISHED MATERIAL

Mr. CAMPBELL. Mr. Chairman, I would say that the area of defense operations we believe most deserving of immediate consideration, and one that can be undertaken even under the Department's existing legal authority, would be to increase substantially the amount of Government-furnished material supplied contractors. This is a subject to which I have referred today quite frequently. We think this should have first priority.

Chairman DOUGLAS. That is, the handling of contracts.

## DIRECT FURNISHING OF COMPONENTS AND USE OF EXCESSES

Mr. CAMPBELL. Direct Government procurement of components and assemblies and the utilization of excess stocks of spare parts and supplies in the production of end items would greatly reduce the costs of such items to the Government, narrow the base on which the prime contractors' profits are calculated thereby bringing the profit base more nearly in line with their contribution to the contract work, provide an opportunity for a wider diffusion of Government contract work throughout the whole of the business community; I think this is very important, to provide the Government with a source for direct procurement of spare parts requirements, again at reduced cost. As pointed out in my statement, in several of our reports and as is becoming increasingly apparent from our work, opportunities for immediate savings in this area are tremendous.

## TITANIUM AND ALUMINUM

The second area is related to this first, and that is covered, referred to in a report released on Monday of this week.<sup>1</sup> We pointed out that the Air Force is incurring millions of dollars of unnecessary cost for the purchases of substantial quantities of titanium and aluminum, although the Government already owns and is storing at considerable cost large quantities of these materials which are surplus in its current stockpile requirements.

Those two areas, I think, are of immediate concern.

Chairman DOUGLAS. Very important. I hadn't realized that the Air Force was purchasing titanium and aluminum. The stockpiles of these are huge, as I understand it.

Mr. CAMPBELL. And their purchases are huge.

## IMPORTANCE OF ENGINEERING DRAWINGS

Representative CURTIS. Mr. Chairman, a question I wanted to ask and had forgotten was brought up by your first answer to this business of direct procurement.

Mr. Campbell, you make this remark:

To the extent that increased competition has been achieved, in many cases it appears to have been accomplished by various means of describing the items short of providing detailed engineering data.

In this business of breakout, or whatever they want to call it, of dealing directly with components, and so on, it seems to me the key item is engineering data, and frequently, engineering drawings and their specifications. Am I in accord with your thinking?

Mr. CAMPBELL. Quite correct.

Representative CURTIS. I was trying to make a point of that during the interrogation this morning of Secretary McNamara, and there seems to be agreement there, too. This is what seems to be lacking.

Chairman DOUGLAS. Well, thank you very much, gentlemen.

Representative GRIFFITHS. Thank you.

(Whereupon, at 4:15 p.m., the subcommittee recessed.)

<sup>1</sup> B-125071, dated Apr. 13, 1964.

# THE IMPACT OF MILITARY AND RELATED CIVILIAN SUPPLY AND SERVICE ACTIVITIES ON THE ECONOMY

TUESDAY, APRIL 21, 1964

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

The subcommittee met at 10:15 a.m., pursuant to recess, in room 1202, New Senate Office Building, Senator Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senator Douglas and Representative Curtis.

Also present: James W. Knowles, executive director; Ray Ward, economic consultant; and Hamilton D. Gewehr, administrative clerk.

Chairman DOUGLAS. The subcommittee will be in order.

Our first witness today is Mr. Bernard Boutin, Administrator of General Services Administration.

May I say, very briefly, Mr. Boutin has one of the toughest jobs in Washington. In my judgment, he has made many economies and many improvements, as I think his statement will show. However, he is constantly put in the position of being charged with taking something away from other agencies when he makes improvements, and the people who are affected and who protest may be Cabinet officers who in the power structure of Washington rank above administrators.

The General Services Administrator, therefore, needs strong support from Congress, and from the Executive Office. I remember that Mr. McCormack, now Speaker, introduced a bill a few years ago to make GSA a department. Perhaps that is again in order although I do not promise to introduce such a bill.

In any event, we are very anxious to hear your statement.

Thank you very much, Mr. Boutin, for coming.

## STATEMENT OF BERNARD L. BOUTIN, ADMINISTRATOR OF GENERAL SERVICES; ACCOMPANIED BY JOE E. MOODY, GENERAL COUNSEL; ROBERT T. GRIFFIN, ASSISTANT ADMINISTRATOR; AND WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION

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

Mr. Chairman and members of the subcommittee, it is a pleasure to appear before you today as your subcommittee again considers the economic aspects of military procurement and supply.

When I appeared before you just 1 year ago, I reviewed the role of the General Services Administration in relation to the military pro-

curement and supply operations, and discussed some of the actions which had been taken in coordination with DOD and other actions which were then under consideration. The results of the actions in terms of improved economy and efficiency in the conduct of Government affairs were described in detail.

We have continued to make major advances during the past year in the discharge of our many and varied responsibilities, in achieving further economies and efficiencies through improvement of governmentwide as well as our internal methods, systems, and procedures. We have continued aggressive implementation of the full responsibilities vested in GSA by the Property Act, related statutes, and Presidential directives.

In my testimony last year, I dealt at length with the actions taken by GSA during the prior 2 years covering our full range of responsibilities to realize for the Government the full benefits in terms of economy and efficiency envisioned by the Congress upon enactment of the Federal Property and Administrative Services Act of 1949, vesting in GSA broad authority to act as the business management arm of the executive branch.

I will not repeat a description of those actions today because I want to concentrate my testimony on those areas of GSA activities which have a more direct impact on the economic aspects of military procurement and supply.

However, I do want to inform the subcommittee that during this past year we have made a thorough reevaluation and analysis of all policies, methods, and procedures followed by GSA in carrying out our statutory responsibilities. As a result of this reevaluation, such of our policies, methods, and procedures as we determined to be sound have been reaffirmed; those requiring revision have been improved; emphasis has been redirected where necessary or desirable; and our organizational structure has been adjusted as appropriated.

This searching self-analysis has helped us to concentrate our greatest efforts where the potential for savings is the greatest, has enabled us to lay down modern charters for the conduct of our many programs, has provided a sound basis for planning our future operations, and will materially enhance our capabilities to achieve economies and efficiencies on a governmentwide basis.

#### ROLE OF GSA VIS-A-VIS DOD

As I said last year, improvement of our relationships with the Department of Defense has been one of my primary objectives since I first came with the agency in January 1961. I am personally very much gratified, therefore, to be able to report to you that, in my judgment, these relationships are at an alltime high, and, I believe, on a sound and continuing good basis.

With the outstanding cooperation of Assistant Secretary Morris and his people, especially General McNamara, the Director of Defense Supply Agency, and his very competent staff, much has been accomplished during the past year.

#### PAINT AND HANDTOOLS

The transfer of supply management responsibility for military requirements for paint and handtools is an accomplished fact.

May I say I don't believe this would have been possible, certainly not within the time frame that it was accomplished, if it had not been for the work of this committee. I think this has been a significant step forward.

Chairman DOUGLAS. Thank you.

Mr. BOUTIN. GSA assumed responsibility for supplying military paint requirements as of October 1, 1963, and handtool requirements January 1, 1964. The transition is progressing satisfactorily. We believe that we can provide this supply support to DOD at a reduction of some 200 man-years and an inventory reduction of approximately \$40 million.

Chairman DOUGLAS. That is 200 man-years a year?

Mr. BOUTIN. That is 200 man-years a year. Very substantial.

Chairman DOUGLAS. 200 jobs?

Mr. BOUTIN. Yes; from 700 down to 500.

Chairman DOUGLAS. What is the average salary?

Mr. BOUTIN. The average salary, I would judge, would be in the vicinity of \$6,000 to \$7,000.

Would that be about right?

Mr. MOODY. Yes.

Chairman DOUGLAS. Roughly, \$1¼ to \$1½ million annual saving?

Mr. BOUTIN. Yes, sir; annual saving.

#### PLANS FOR FULLY COORDINATED NATIONAL SUPPLY SYSTEM

In addition, and of potentially far greater impact in terms of economy and efficiency, in line with your subcommittee's recommendation,<sup>1</sup> GSA and DSA working cooperatively together have developed a tentative plan governing the total supply management functions and relationships between the two agencies.

Essentially, the tentative plan contemplates a unified national supply system eliminating unnecessary overlapping and duplication between the civil and military agencies. The plan incorporates criteria under which intelligent decisions can be made as to when it is necessary to the national security for Defense Supply Agency to manage military requirements for nonweapons related commercial-type supplies. The tentative plan contemplates that DSA also will manage total Government-wide requirements for selected items if such action can be shown to produce overall economies without impairing DSA's ability to serve military needs in time of war. The principal commodities currently under consideration for Government-wide supply support by DSA are subsistence, both perishable and nonperishable, clothing and textiles, medical, petroleum, and electronics. The tentative plan contemplates that General Services Administration will support civil and military users of commercial-type items not requiring DSA management for military users determined under the criteria embodied in the plan.<sup>2</sup>

Where Government-wide supply management responsibility cannot be exclusively assigned either to DSA or GSA, the plan provides for the fullest cooperation between the two agencies. The plan also provides for maximum cross-utilization of facilities, capabilities, and services where such action will promote Government-wide supply man-

<sup>1</sup> See "Report, 1960," pp. XII, 59, and "Report, 1963," pp. 4-5, 48.

<sup>2</sup> For text see staff report, 1964, app. 5, p. 169.



agement economy and efficiency. The plan includes an understanding that GSA's total supply management capabilities will be available to DOD in times of national emergency and that GSA will honor the defense priority system in peacetime.

I might say at this point, Mr. Chairman, that the agreement I submitted to the Department of Defense for their concurrence provided that in time of national emergency that the full authority of the Administrator of GSA would be subservient to the direction of the Secretary of Defense. This would be true not only in the point I have just made on supply but in surplus property, utilization, rehabilitation, the whole public buildings area, defense materials, and that entire program, our record services and all the know-how we have there. In other words, our total capability would be available to the Defense Establishment to meet a national emergency.

Chairman DOUGLAS. Very good.

Mr. BOUTIN. Implementation of the plan would be a step of major importance presaging the most significant era in a long history of efforts to eliminate overlapping and duplication in the procurement and supply of commercial-type items required by Federal agencies.

Since the plan is of such major importance, it must be thoroughly tested before implementation. We are well underway with such a joint DSA/GSA test. During the test, the criteria stated in the tentative plan will be applied against some 100,000 items carefully selected to provide a meaningful test, not only as to the workability of the criteria embodied in the tentative plan, but of the entire plan, itself. Current plans call for completion of the test by July 1 of this year. If, as we expect, the tentative plan proves to be a sound basis for the assignment of supply management responsibility between DSA and GSA, we would expect to proceed promptly thereafter with its full implementation on a progressive, orderly basis, leading eventually to supply management assignments between the two agencies covering the entire Government's requirements for commercial-type items.

#### ECONOMIES FROM A FEDERAL SUPPLY SYSTEM

Chairman DOUGLAS. Mr. Boutin, have you been able to make a tentative estimate as to the probable economies that would be effected if and when this agreement is carried out?

Mr. BOUTIN. I could pinpoint, Mr. Chairman, the exact or even an approximate estimate of economies. It would be my judgment that in the total concept of a national supply system with the civil agencies other than GSA completely out of the common-use items, with Defense, subject to their agreement serving civilian as well as military needs in the items in particular that I have cited, that we are probably talking between \$50 and \$100 million a year at a very minimum, plus reductions in stock fund requirements for all of these agencies, warehouse costs, and so forth, economies could be many times that. We could be talking conservatively as much as \$400 or \$500 million, taking in the whole picture.

#### ANNUAL SAVINGS OF \$50 TO \$100 MILLION POSSIBLE

Chairman DOUGLAS. That is with a reduction in inventories and the annual savings for 1 year?

Mr. BOUTIN. I would say that we are talking reoccurring annual savings of between \$50 to \$75 to \$100 million.

#### LARGE INVENTORY SAVING

Chairman DOUGLAS. And an initial saving in inventory or probably several hundred million dollars?

Mr. BOUTIN. I would say conservatively, sir.

Chairman DOUGLAS. That is a marvelous achievement. Has Defense finally agreed to this?

#### TEST TO BE COMPLETED BY JULY 1, 1964

Mr. BOUTIN. This is what we are testing right now with the test to be completed as of the 1st of July. The degree of cooperation has been excellent all the way. We have also been working, Mr. Chairman, with the civilian agencies. We have had joint discussions with the Bureau of the Budget, DSA, with VA, and NASA; GSA and the Bureau of the Budget have had discussions with the Post Office.

We have had discussions with FAA. I think that the atmosphere is such right now and the attitude is such that we can with confidence feel that this is going to work out.

Chairman DOUGLAS. That is a marvelous achievement. You and your staff deserve a great deal of credit.

You know the press and, very frequently, congressional committees, point out the weaknesses of administrations and this is part of our job. We are not always as alert in giving praise where it is due.

I think you have made an extraordinary record, Mr. Boutin, and your staff, and the cooperation which the other agencies have given both under President Kennedy and now under President Johnson has really been above and beyond praise. I feel more encouraged in this matter than I have felt for many years.

#### INTEGRATION OF CIVIL AGENCY SUPPLY FUNCTIONS

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

GSA has actively pursued integration of civil agency supply functions into the national supply system. Negotiations toward this end have been conducted with Veterans' Administration, Post Office Department, Federal Aviation Agency, National Aeronautics and Space Administration, and State Department. These negotiations have been closely coordinated with the Bureau of the Budget.

#### VETERANS' ADMINISTRATION

With respect to the Veterans' Administration, a joint GSA-VA study of distribution of nonperishable subsistence was completed in September of 1963 which showed that substantial economies would result from integration of the distribution of total civil agencies' nonperishable subsistence requirements into a single distribution system. Transfer of nonperishable subsistence procurement and/or distribution from VA to DSA under the national system plan will impact the cost to VA of procuring and distributing other commodities required by them. Therefore, and consistent with the national system

plan, the entire problem of managing VA's supply requirements must be considered as a whole.

At the request of the Bureau of the Budget, DSA, in coordination with GSA, is studying the economic feasibility of assuming supply management responsibility for VA requirements for perishable and nonperishable subsistence. We plan to expand this study as soon as possible to other civil agency requirements for subsistence and to all civil agency requirements for other commodities which the national system plan contemplates will be assigned to DSA for Government-wide supply support. We are confident this study will show that DSA support of civil agency requirements for these commodities will produce substantial economies; studies and discussions looking toward the foregoing actions are currently in progress between VA, DSA, GSA, and the Bureau of the Budget.

#### BOB POSITION ON FEDERAL PLAN

Chairman DOUGLAS. By the way, has the Bureau of the Budget approved this agreement with the Defense Department?

Mr. BOUTIN. The agreement with the Defense Department has been coordinated with the Bureau of the Budget and the Bureau of the Budget is in accord with this study that is being made.

Chairman DOUGLAS. I am speaking of the agreement which you have already made with the Department of Defense. Have they approved that?

Mr. BOUTIN. The only agreement we made with the Department of Defense is to investigate the philosophy of the national supply system which we have advocated, and all of these various studies that are going on currently looking toward a July 1 resolution. That part they have agreed to. The Bureau of the Budget, however, has not given us either a yes or no answer pending the outcome of these studies on what their attitude is going to be once the determination is made.

Chairman DOUGLAS. They will have to make a decision by the 1st of July; will they not?

Mr. BOUTIN. They would have to indicate concurrence or nonconcurrence if they wish to have their voice heard in this. Of course, this opens up a very difficult area for us, Mr. Chairman, that we might discuss a bit.

Under the Property Act, the laws vest in GSA and the Administrator of GSA, the full responsibility and authority to make determinations as to the supply and procurement systems that shall be in use by the civil side of the Federal establishment. It also has some direct application as far as defense is concerned.

#### BOB PLAYS IMPORTANT ROLE ON TRANSFER OF PERSONNEL AND FUNDS

There is nothing in the law which says the Administrator shall go to the Bureau of the Budget for their concurrence or lack of concurrence. We have done this simply because the Bureau is the determining authority on transfer of personnel and funds in the absence of an action by Congress, itself.

#### ACTION PENDING ON POST OFFICE

So, we have attempted to coordinate very closely with them. Of course, a case in point that I will deal with later on in the statement

is the Post Office Department, where, as far as the Administrator is concerned, he has already determined that the Post Office Department should be out of the supply and procurement business and this should be absorbed by GSA. This has been pending in the Bureau of the Budget for some time and is currently under consideration by the Bureau as of this moment. But, actually, the decision, itself, is the Administrator's.

#### ADMINISTRATOR'S AUTHORITY UNDER BASIC ACT

Chairman DOUGLAS. As I read section 201 of the basic act, you are correct. For the purposes of the record, I will ask to have inserted at this place section 201(a) so that the statutory authority for your actions may be made clear.

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

(Insert referred to follows:)

#### TITLE II—PROPERTY MANAGEMENT

##### PROCUREMENT, WAREHOUSING, AND RELATED ACTIVITIES

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

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

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

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

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

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

#### POST OFFICE DEPARTMENT

Mr. BOUTIN. A September 1963 proposal by GSA, based upon an extended study of the supply management operations of the Post Office Department, to absorb into the national supply system the supply management functions of the Post Office Department is presently pending before the Bureau of the Budget.

Our studies showed that integration of the Post Office supply management system, including both their four supply centers and seven capital equipment warehouses, into the GSA system would achieve economies equaling at least \$500,000 annually plus savings attributable to inventory reductions approximating \$2 million.

## FEDERAL AVIATION AGENCY

Substantial progress already has been made in the integration of the Federal Aviation Agency supply management function into the national system. FAA no longer stocks in its Oklahoma City depot items carried in GSA depot stocks. FAA warehouse and transshipment operations in Seattle have been closed and GSA is now directly supporting FAA in Alaska. FAA requirements in Hawaii and the Pacific area are now being directly supported by GSA and the FAA depot functions in Honolulu have been eliminated. All items in the FAA supply system have been cataloged in the Federal catalog system. Use of Fedstrip was adopted by FAA on April 1, 1964. Discussions are now underway for assumption by DSA of supply support to FAA for electronics.

## NATIONAL AERONAUTICS AND SPACE AGENCY

We are in the preliminary stages of discussions with National Aeronautics and Space Agency. We expect that a mutually satisfactory supply management arrangement will be worked out with NASA covering Cape Kennedy, Goddard Space Flight Center, Houston, and other NASA locations, under which NASA requirements for non-program related commercial-type items will be supported in the national system.

## DEPARTMENT OF STATE

Supply support arrangements with the Department of State, on a worldwide basis, are progressing satisfactorily. We operate a self-service store in the State Department building in Washington, D.C. Foreign Service posts now are obtaining automotive and other stock items from the GSA system.

I feel, by the way, that there is much more we can do, Mr. Chairman, in the way of supply support for the State Department and we are currently internally discussing this at GSA. We assisted in the establishment of a regional supply center at Lagos, Nigeria, and are conferring with the State Department on the solution of supply problems in Germany, France, and England.

Although economies cannot be accurately evaluated until full agreement is reached on the tentative plan for a fully coordinated national supply system and some progress has been made toward its implementation, we believe that it will prove to be one of the most significant developments in history in achieving economy and efficiency in the overall Government supply management field.

## PROCUREMENT FOR OVERSEA USE—REDUCTION OF GOLD OUTFLOW

We are continuing to work closely with the military agencies in their efforts to reduce outflow of gold by channeling procurement to U.S. sources. Our customer sales center at Sembach Air Force Base in Germany was established to acquaint overseas activities with the many items available through the GSA supply system and which are produced in the United States, and has significantly aided in returning procurement to stateside.

Under the Army's new supply system, entitled "The Army Supply and Maintenance System (TASAMS), GSA started receiving requisi-

tions directly from Army oversea commands effective February 1, 1964. To assist Army oversea requisitioners in ordering their requirements for stock and nonstock items from GSA stateside by punched card milstrip format via transceiver facilities, our punched card identification of such items has been expanded from 2,000 to 30,000 items and made available to major oversea Army commands. Some 8,000 of these items heretofore had usually been obtained from oversea sources.

With the cooperation of the Department of the Air Force, we have established a supply center at Hickam Air Force Base, Honolulu, Hawaii. The center provides supply requirements to the whole Federal establishment in Hawaii. Many repetitive items are carried in stock at the center for immediate issuance, and the length of the supply line for other items has been substantially reduced.

When the center becomes fully operational, it is expected that the annual volume will approximate \$2.2 million. The center can further serve as an emergency depot for the commercial-type supply needs of the Air Force, State Department, AID, and other civil agencies in the entire Pacific theater of operations.

A GSA supply service specialist stationed in Tokyo provides day-to-day assistance to the many Federal activities in the Far East by helping them to obtain quick, efficient, and economical supply support.

#### CATALOGING AND STANDARDIZATION

The GSA and the DOD have cooperated in the development and operation of the Federal catalog system since its inception. To assure continuation of this cooperative effort, to assure that all items in the supply systems of both military and civil agencies are cataloged in the same system under the same name, description, and stock number, and to achieve the major economies that can be realized through effective utilization of a single catalog system and fully integrated standardization programs on a Government-wide basis, a proposed new agreement has been developed and is now under consideration by DOD and GSA.

The proposed agreement defines respective GSA and DOD responsibilities for development of policies and procedures, and maintenance and operation of the catalog system. It provides for continued DOD operation and maintenance of the Federal catalog system central files for all Government agencies and for GSA representation of civil agency interest. The agreement provides for development and maintenance of military and Federal specifications and standards on a fully cooperative basis by DOD and GSA to prevent duplication between systems and to assure maximum utilization of respective technical resources. The agreement also provides for Federal (Government-wide) specifications or standards where there is civil or civil and military agency interest and for military specifications or standards where items are of military interest only. We expect that the proposed new agreement will be finalized in the near future.

In fact, I would hope, Mr. Chairman, that within the next 10 days this will be finalized and be an accomplished fact.<sup>1</sup>

---

<sup>1</sup> Proposed agreement not available at time this publication went to press.

Achievement of Government-wide uniformity in names, descriptions, and stock numbers used in supply operations through completion of civil agency cataloging programs will foster standardization, promote greater integration of military and civil agency supply support, and will facilitate supply management decisions on a Government-wide basis.

#### CIVILIAN CATALOGING TO BE COMPLETED IN FISCAL 1965

As of December 31, 1963, 615,000 items used by civil agencies had been cataloged in the Federal catalog system. Based upon a complete survey during the latter part of fiscal year 1963, we have programmed completion of cataloging of the remaining civil agency items in fiscal year 1965. (See p. 220.)

As a result of a joint DOD/GSA review during the period March 1963 to January 1964, of 82,000 items for the purpose of reducing the variety of supply items actually stocked to meet the needs of defense and civil agencies, 53,000, or 63.5 percent, were determined to be nonstandard and designated for discontinuation as stocks are exhausted.

#### DISCONTINUANCE OF NONSTANDARD ITEMS

Chairman DOUGLAS. This is very interesting. You are going to exhaust the existing stocks and discontinue the buying and classification of those items?

Mr. BOUTIN. That is correct, sir.

#### PROSPECTS FOR LARGE SAVINGS

Chairman DOUGLAS. This will effect tremendous savings, will it not?

Mr. BOUTIN. It will effect tremendous savings and actually reflect just a beginning of what the real possibilities are here. This is not only a problem between the services of the Defense Department, itself; it follows the whole gamut of Federal responsibility and involves every single agency.

Once we can reduce these items to a bare minimum with firm identifications and develop sufficient standards and specifications to get away from the name brand or equal and to get into a posture where we can bid competitively, we are going to save a fantastic amount of money.

This item simplification review will be continued in order to reduce to the absolute minimum the total number of items in the Government's supply systems.

#### STRATEGIC AND CRITICAL MATERIALS STOCKPILING PROGRAM

Achievement of certain national defense goals through GSA's management of the strategic and critical materials stockpiling programs is another example of DOD/GSA cooperative relationships vital to the economy of the Nation. Stockpile inventories of 97 materials bulking some 51.7 million tons as of December 31, 1963, have an acquisition value of \$8.6 billion. GSA's management of these inventories is carefully planned so as to assure the orderly flow of materials in or out of these inventories without disrupting normal markets and prices. Inventories of excess materials are presently valued at \$4.1 billion.

Sales since July 1, 1959, through December 31, 1963, total \$482.2 million.

Our sales, by the way, Mr. Chairman, forecast for 1965 are \$188 million.

#### DISPOSAL OF EXCESS STOCKPILE MATERIAL

Chairman DOUGLAS. I was just going to comment that in four and a half years you were able to dispose of about 12 percent of the excess stocks.

Mr. BOUTIN. Yes, sir.

Chairman DOUGLAS. At this rate, it would require 33 years to get rid of the excess stocks.

Mr. BOUTIN. We have accelerated our disposal substantially, Mr. Chairman. In fiscal 1964, our estimate is \$158 million. Fiscal 1963 was only \$110 million; fiscal 1965, \$188 million.

I am lobbying a little bit, perhaps, but I certainly hope for the success of the bill<sup>1</sup> that has been proposed by Senator Symington, which would give us opportunities for substantial economies by commingling the stockpiles. It really makes no good economic sense to maintain them as separate entities as we must do now, and it would also give us the flexibility of disposals that would not only mean greater income to the Federal Government and accelerate at least to a moderate extent, a disposal program, but we could dispose of items as they are needed by industry.

Right now, as you know, Mr. Chairman, there is a bill pending before the Congress on the disposal of cadmium which is in tremendous short supply. Factories are going to be closing unless we can make this available. The price has gone out of sight. If we had the flexibility provided for in the Symington bill, we could be disposing of cadmium very quickly and meeting the market needs of American industry and preserving American jobs.

Chairman DOUGLAS. What is it that prevents you from doing it?

Mr. BOUTIN. The current law covering the national stockpile requires the 6-month waiting period from the date we publish a disposal plan in the Federal Register before we can sell unless this is waived by Congress, and we have to have the consent of the full Congress. Under the Symington bill, we would have only a 60-day waiting period and need only the consent of the Committees on Armed Services. It would give us much greater flexibility.

The Executive Stockpile Committee established by President Kennedy in 1962, of which I was a member, made an intensive review of principles and policies which should guide our program for the stockpiling of strategic materials and the relationship of stockpiling to the Nation's defense strategy. The Committee's 14 recommendations relative to disposal of excess stockpile materials, including recommendations for development of long-term disposal programs, were approved by the President on January 30, 1963.

Under the long-range disposal policy established by the late President Kennedy, and new legislation hopefully to result from the hearings on stockpiling by a subcommittee of the Senate Armed Services Committee, future disposals of excess stockpile materials will be accelerated.

<sup>1</sup> S. 2272, 88th Cong., 2d sess.



GSA is represented on the Interdepartmental Disposal Committee, established by OEP in line with the Executive Stockpile Committee's recommendations, to advise OEP on programs and problems relating to the disposal of excess stockpile materials, including preliminary investigations of all aspects of the proposed disposal of excess materials, recommendations of factors and criteria for inclusion in disposal plans for each surplus material, and other considerations dealing with the development of long-range disposal plans. This Committee currently is developing recommendations for broad guidelines to be followed by GSA in drawing up long-range disposal programs. GSA discharges an important role in the functions of the Interdepartmental Disposal Committee in chairing a subcommittee responsible for selecting specific criteria to be applied in development of long-range disposal plans for each commodity; identifying and reviewing data on production, consumption, markets, et cetera, required for making determinations regarding proposed disposal programs; and making recommendations to the Committee regarding disposal programs for each commodity.

GSA also is represented on the Interdepartmental Materials Advisory Committee responsible for advising OEP on policies, plans, programs, and problems relating to defense materials including stockpiling of strategic and critical materials; content, status, rate of progress, and completion dates of defense materials programs; changes in program emphasis necessary to meet major problems and objectives; and new programs that may be required to improve the supply of defense materials.

Our program for emphasizing Government use of excess stockpile materials expanded such use to \$21.7 million in fiscal year 1963 and is estimated to reach \$28.3 million for the current fiscal year. Use of stockpile excesses by DOD, one of the major using agencies, is expected to approximate \$6.5 million this year. Use and disposals of excess stockpile materials have a substantial favorable impact on our balance of payments since most of the materials are produced primarily or entirely outside the United States. It is estimated that disposals in fiscal year 1963 avoided approximately \$88.5 in gold outflow and that disposals during the current fiscal year will avoid \$122.4 million in gold outflow.

Utilization of the production of our Government-owned Turtle Mountain jewel bearing plant at Rolla, N. Dak., is a prime example of DOD/GSA cooperation. DOD regulations require DOD contractors to obtain their jewel bearing requirements for new production from this plant. About 45 percent of current production is so used.

This policy is being expanded to a Government-wide basis under regulations to be issued by GSA in the near future. Small quantities are sold for non-Government contractor use. The balance of the production goes into the national stockpile. When present plant modernization and expansion is completed, this plant will be capable of providing all defense emergency jewel bearing requirements not available from stockpile reserves.

In line with our continuing program to maintain our stockpile inventories at the least cost consistent with security considerations, we continue to store our materials in Government-owned space to the maximum extent possible. Since July 1962, we have moved out of

7 commercial warehouses and partially evacuated 11 others at a savings of \$346,000 annually in commercial storage costs. We plan to evacuate all closed commercial storage locations by the close of fiscal year 1965 except for six warehouses containing cordage fibers for which we will have a continuing requirement under a recent determination and for which no suitable Government-owned storage space is available. We jointly occupy existing military operated depots, and use facilities declared excess by the military where feasible. Out of a total of 21.8 million square feet of closed storage space occupied, 6.2 million square feet of closed storage space are presently occupied at military depots.

Chairman DOUGLAS. Mr. Boutin, see if I understand this.

You have not been compelled to build additional warehouses or storage space.

Mr. BOUTIN. Not a single one, Mr. Chairman.

Chairman DOUGLAS. What you have done is merely contract the existing amount of storage space, moving out of commercially owned space which you leased under rental and moving into either other GSA warehouses or into unused military warehouses, is that right?

Mr. BOUTIN. That is correct, Mr. Chairman.

Chairman DOUGLAS. That is a fine achievement.

Mr. BOUTIN. We have been able to do it at a very substantial savings. We have not projected in this statement the total savings for this move through fiscal 1965 when we will be out of all but six. But it would be about double, if my memory serves me correctly, of the figure we have cited here for the accomplishments to date.

Under cross-servicing agreements with the military, much of the space we occupy is standby space in the case of a national emergency. We are paying the services about 25 cents a square foot which is a lot less than we have to pay commercially. This space would have to be retained ordinarily, anyway.

#### NATIONAL INDUSTRIAL EQUIPMENT RESERVE

GSA also provides support to DOD through the operation of the national industrial equipment reserve (NIER) which provides a nucleus of over 9,400 machine tools costing \$90.1 million for expansion of essential defense industries. Tools in the reserve are stored in four depots maintained by GSA and in various military depots under GSA/DOD cross-servicing arrangements. These reserves not only provide a reserve of general purpose machine tools for expansion of defense industries in an emergency, but through the school loan program, many of them also are being used for training purposes in vocational and technical schools, thus helping to assure that necessary skills will be available to utilize the tools. Approximately 2,200 tools were on loan to schools as of December 31, 1963, and we expect that such loans will cover at least 3,000 tools in the next year.

This includes a great many of the small high schools that would not have the funds in their manual arts programs to acquire tools like this.

Chairman DOUGLAS. These are tools such as lathes, punch presses, and drills?

Mr. BOUTIN. That is right, sir.

In the retraining program, I can mention a case in my own State of New Hampshire, I understand that those who are taking this re-

training program have not had a single dropout on this program. The tools that they are using located at the Burlington High School come from this program, serving a very, very great need.

#### CIVIL DEFENSE

GSA supports the Department of Defense and the Department of Health, Education, and Welfare in the operation of civil defense depots and in providing other services in the stockpiling of engineering, radiological, chemical, biological, fallout shelter supplies and equipment, and supplies and equipment for prepositioned hospitals. As of December 31, 1963, inventories valued at \$216.9 million under these programs were stored at 56 locations operated by GSA.

#### COMMUNICATIONS

The principal recent change in relationships between GSA and DOD in communications, public utilities, and transportation, was marked by the late President Kennedy's memorandum of August 21, 1963 (28 F.R. 9413), establishing the National Communications System (NCS), under which the GSA Federal Telecommunications System (FTS) is an operating component and participating agency.

SEC. 110. There is hereby authorized to be established on the books of the Treasury, a Federal telecommunications fund, which shall be available without fiscal year limitation for expenses, including personal services, other costs, and the procurement by lease or purchase of equipment and operating facilities (including cryptographic devices) necessary for the operation of a Federal Telecommunications System, to provide local and long-distance voice, teletype, data, facsimile, and other communication services. There are authorized to be appropriated to said fund such sums as may be required which, together with the value, as determined by the Administrator, of supplies and equipment from time to time transferred to the Administrator under authority of section 205(f), less any liabilities assumed, shall constitute the capital of the fund: *Provided*, That said fund shall be credited with (1) advances and reimbursements from available appropriations and funds of any agency (including the General Services Administration, organization, or persons for telecommunication services rendered and facilities made available thereto, at rates determined by the Administrator to approximate the costs thereof met by the fund (including depreciation of equipment, provision for accrued leave, and where appropriate, for terminal liability charges and for amortization of installation costs, but excluding, in the determination of rates prior to the fiscal year 1966, such direct operating expenses as may be directly appropriated for, which expenses may be charged to the fund and covered by advances or reimbursements from such direct appropriations), and (2) refunds or recoveries resulting from operations of the fund, including the net proceeds of disposal of excess or surplus personal property and receipts from carriers and others for loss of or damage to property: *Provided further*, That 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 (Public Law 87-847).

The Secretary of Defense, as NCS Executive Agent, is responsible for recommending, for Presidential approval, plans and designs for NCS and its operation. The Secretary of Defense designated the Director of Defense Communications Agency as Manager, NCS, with responsibilities for developing the planning recommendations, including short- and long-term plans for development of the National Communications System through its operating components. GSA has a resident representative in the Office of the NCS Manager for coordination at that level.

The GSA Federal Telecommunications System (FTS) consists of a voice system using common-carrier facilities of independent and Bell Telephone companies, and a record (data and teletype) system provided by Western Union. The system provides both private line automatic dialing and circuit switching facilities, and message switching for record and data traffic, thereby greatly improving services and reducing costs to the Federal Government.

The voice portion of FTS will link together more than 355 cities on July 6, 1964. The records portion (known as Advanced Records System or ARS) of the FTS is composed of automated message switching centers and a circuit switching network which will connect 1,600 stations in about 600 cities on a phased basis between January and May 1965.

The contract for the ARS was awarded to Western Union on January 27, 1964. Proposals received in response to our request for quotations were carefully evaluated under criteria related directly to the specifications which were developed for evaluation purposes before the request for proposals was released.

All proposals were evaluated within established maximum point scores; each proposal was fully analyzed; all alternative award possibilities were considered; and the award as made was considered in the best interest of the Government, price and other factors considered. The Government's cost of record transmission under the new contract will approximate \$7.5 million annually, about \$1 million less than the annual cost under the current system. As implemented, the system will have about 400 million annual word capability which can be expanded by 250 percent at a cost increase of only about 25 percent.

The FTS system provides facilities for emergency communications, and has survivability features such as diversity of circuit routings, automatic alternate circuitry, bypassing of target areas, hardened switching facilities, redundant switching capabilities, end-to-end encryption—

Chairman DOUGLAS. That is a new word, Mr. Boutin; "Encryption." What does that mean?

Mr. BOUTIN. Cryptographic equipment, security equipment.

Chairman DOUGLAS. Is that in the new dictionary?

Mr. BOUTIN. Probably in the new GSA dictionary. I don't know whether Webster recognizes it or not.

Priority and preemption capabilities, and automatic direct dialing between subscribers for communications privacy.

The joint GSA and DOD group located at Scott Field, Ill., to procure Telpak and Compak intercity communications circuits from A.T. & T. Co. and Western Union, on which I reported last year, continues as a highly satisfactory cooperative function. Current savings for the Government as a whole from this joint procurement are at the rate of \$4.7 million per annum.

That figure is now antiquated. The newest figure for the system which is just a year old shows a total savings thus far of \$6.2 million.

Chairman DOUGLAS. These are actual savings, not merely projected savings.

Mr. BOUTIN. These are actual savings.

Chairman DOUGLAS. Very good.

Mr. BOUTIN. Actually, our projected savings for the full FTS system including the advanced record system, Mr. Chairman, when fully implemented, July 1, 1965, will be in the neighborhood of \$23 million a year with the service very, very substantially better than it has been.

#### PROCEEDINGS BEFORE FEDERAL AND STATE REGULATORY BODIES

In proceedings involving transportation, communications, and other public utilities before regulatory bodies, representation of the Government as a large consumer is conducted by GSA, unless DOD has the sole or predominant interest, in the particular proceeding, in which event GSA delegates authority to DOD to represent its own interest as well as the interests of other executive agencies of the Government. The authority so delegated is exercised in accordance with policies and procedures prescribed by GSA. At the close of fiscal year 1963, 57 cases were pending, 16 of which were delegated to DOD for handling.

Annual recurring savings to the Government resulting from representation in the cases concluded during fiscal year 1963 are estimated at \$728,200. This activity is carried out on a continuing basis and proceedings successfully concluded each year produce substantial recurring Government-wide economies. These savings continue to pyramid and further annual recurring savings accrue from successful interventions in additional proceedings each year.

Total economies to the Government in transportation, communication, and other utility costs directly attributable to this representation function by GSA are estimated to accumulate approximately \$102.8 million from fiscal year 1957 to date.

#### INTERAGENCY MOTOR POOLS

During fiscal year 1963, GSA interagency motor pools furnished vehicle support to 411 Department of Defense installations and offices at a saving of \$1.7 million. On a Government-wide basis, 75 motor pools were in operation at the close of fiscal year 1963. Per-mile cost averaged \$0.074; average miles traveled per vehicle were 11,801; total miles traveled was 293.4 million; fiscal year 1963 savings from motor pool operations totaled \$9.4 million.

I would like to point out here, Mr. Chairman, that there have been a number of significant recent developments. The most recent has been the agreement between GSA and NASA to supply their motor vehicle requirements at Cape Kennedy. Ultimately, we anticipate we will have 3,000 vehicles there that will largely replace leased vehicles with Government-owned vehicles which is going to save a very, very substantial amount of money.

Administrator Webb and his Assistant Administrator Young, and some of his other people have been very, very cooperative. Al Seibert at Cape Kennedy, also. This program will be expanded to other NASA locations.

We anticipate that by 1970, instead of 75 motor pools which we had at the close of last year, we will have approximately 162, and instead of saving \$9.4 million a year I anticipate that we are going to be saving substantially in excess of \$20 million a year.

I further believe that we can reduce continually our per-mile cost so that we can get down in the neighborhood of 7 cents a mile, and this is our goal.

## GOVERNMENT COST OF VEHICLES

Chairman DOUGLAS. Do you buy these automobiles?

Mr. BOUTIN. We buy them. They are Government owned.

Chairman DOUGLAS. When you buy them, what price are you charged? Are you charged the price to a wholesaler or a dealer, or are you charged the retail price?

Mr. BOUTIN. Our price is on an average \$200 to \$300 less than the free on board Detroit price to the jobber. In other words, our average cost for our vehicles, Mr. Chairman, runs about \$1,496 for a regular four-door sedan with directional signals, heater, defroster, and the usual standard equipment.

Chairman DOUGLAS. This is a big change because I remember going into this matter some 12 years ago and Porter Hardy in the House conducted an investigation, too. He found, as I remember it, that at that time the Government was paying virtually retail prices, though it was buying in large quantities. It was not getting the wholesale discount.

Mr. BOUTIN. I would say we are paying on an average \$700 to \$800 under the retail price delivered for our cars. We are getting top quality cars, Mr. Chairman.

Chairman DOUGLAS. Is this true of trucks, too?

Mr. BOUTIN. This is true of trucks, too. We are paying a higher price for trucks, although on pickup trucks we are paying less.

Chairman DOUGLAS. What about spare parts?

Mr. BOUTIN. On spare parts, we are getting excellent prices right across the board.

Chairman DOUGLAS. You are not being forced to pay retail prices?

Mr. BOUTIN. Not anywhere near retail.

Chairman DOUGLAS. Very good.

## EXCESS AND SURPLUS PROPERTY, UTILIZATION OF CONTRACTOR INVENTORY

Mr. BOUTIN. A joint GSA-DOD program initiated in fiscal year 1962 for systematic utilization screening of unneeded items of contractor inventory has exceeded expectations. Utilization achieved rose from \$42 million in 1962 to \$76 million in 1963, and is running at \$130 million rate at the halfway point in 1964.

## AUTOMATED EXCESS REPORTS

A new agreement was made with DOD early in fiscal year 1964 for GSA acceptance of excess DOD personal property reports in ADPE tape form, instead of manually prepared reports. Preparations of both agencies are expected to be completed and the new system in operation by June 1964.

## REHABILITATION

In 1963, GSA placed increased emphasis on our program to achieve for the Government economies available through extending the useful life of personal property through its repair and rehabilitation. The acquisition cost of property rehabilitated under this program increased from \$21 million in 1962 to \$22.9 million in 1963, and is expected to exceed \$50 million in 1964. Much of this increase is at-

tributable directly to cooperation by the military, implemented by issuance of defense regulations (ASPR 5-702) requiring use of GSA property rehabilitation services. Additionally, the Department of the Army has issued a regulation (Con. Reg. 71503) which requires elimination or consolidation of Army in-house facilities and use of GSA contracts as a primary source of supply.

#### INTEGRATED SURPLUS PERSONAL PROPERTY DISPOSAL

I reported last year that a joint DOD-GSA agreement to consolidate in GSA the function of selling DOD surplus personal property, heretofore performed by DOD under a delegation of authority from GSA, was then pending with the Bureau of the Budget for approval. This proposal is still pending before and is under study by the Bureau of the Budget.

Implementation of the agreement we believe would achieve cost reduction, uniform Government sales methods, a single bidders' list for all Government sales, single responsibility for sales and sales analysis, reduction in the number of sales management levels, and elimination from DOD of a nonmission function.

#### SURPLUS DISPOSAL PROGRAM PENDING IN BUREAU OF THE BUDGET

Chairman DOUGLAS. You reported last year it was pending with the Bureau of the Budget. This year you report it is still pending.

Mr. BOUTIN. Yes, sir; we have had a number of talks with the Bureau and I had hoped that we might have a determination prior to coming before this committee, but it is still pending there.

#### LESSENING THE ADVERSE ECONOMIC IMPACT INCIDENT TO DEACTIVATION OF DEFENSE INSTALLATIONS

Large high-cost industrial properties reported by DOD continue to be the dominant type of real property reported excess by executive agencies. These properties, many of which have limited potential for further utilization, present special disposal problems both to GSA and to the communities in which the properties are located.

These problems are being resolved by close coordination between DOD and other interested agencies well in advance of deactivation, and with the full cooperation of the communities affected, for the purpose of lessening to the greatest possible extent the adverse economic impact of changes use and ownership. Since the beginning of calendar year 1961, 66 industrial-type properties have been sold to user-buyers with an employment potential of 46,800 people, thereby doing much to offset the adverse economic impact of Government closure of the installations.

#### GSA SMALL BUSINESS PROGRAM

General Services Administration is firmly committed to an energetic program to assure extensive participation in Government contracting by qualified small business firms to stimulate our national economy.

In fiscal year 1963, the General Services Administration placed 40.5 percent of the dollar volume of its total prime contracts, or \$328.9 million, with small business firms. In the first 6 months of fiscal year 1964, we have succeeded in increasing to 57.5 percent, or \$210 million,

the share of our contracts for property and services placed with small business firms.

Contract needs and techniques have been simplified to make it easier for small businessmen to participate in our buying programs. Particular attention is given to adjustments in the size of lots and to the modification of delivery terms to accommodate small business capabilities. An aggressive small business set-aside program is also conducted.

We have agreed with the Small Business Administration to set aside for small businesses GSA construction, alteration, maintenance, and repair services contracts of estimated value up to \$500,000. Such contracts of estimated value of more than \$500,000 are considered for small business set-aside on an individual basis.

Currently, GSA has about 5,000 commercial contracts for repair, maintenance, and rehabilitation of a wide range of items from furniture to electric motors, the majority of which are with commercial small business firms.

Lotting in quantities small enough to attract small business participation, and allowing sufficient time to permit inspection of property prior to bid closing date assures maximum participation of small business firms in our surplus personal property disposal program.

Through our business service centers located in 11 key cities throughout the United States we provide one-stop counseling service and assistance to small businessmen—telling them how to do business with the Government, what steps to take, what forms to use, and whom to contact.

#### GOVERNMENT-WIDE PROCUREMENT REGULATIONS

Government-wide procurement policies and procedures, prescribed by GSA under section 201 of the Federal Property and Administrative Services Act of 1949, as amended, and published as the Federal Procurement Regulations in title 41 of the Code of Federal Regulations, together with subsidiary implementing regulations of the individual agencies, comprise the Federal Procurement Regulations system administered by GSA.

Our basic objective is to develop, promulgate, and maintain Government-wide, uniform purchasing and contracting policies, methods, and procedures, including standard contract forms and contract clauses, designed to eliminate inconsistencies between agency procurement practices, minimize complexities and inequities in procurement policies and procedures, and make all agency procurement regulations more readily available to businessmen and others concerned.

In performing this mission, we fully utilize GSA's broad procurement experience and know-how and we closely coordinate our efforts with industry and with all other procurement agencies, especially the Department of Defense.

The Federal Procurement Regulations are recognized by the Comptroller General and industry as the controlling procurement authority. It is purchased by over 600 industry subscribers.

#### FORMALLY ADVERTISED VERSUS NEGOTIATED PROCUREMENT

Although competition is obtained to the maximum extent practicable in negotiated procurement, GSA continues to strive to increase the proportion of its contracting let under the time-honored, formally ad-



vertised bid procedure in lieu of contracting on a negotiated basis. In 1963, 90.2 percent of GSA's total procurement dollars, including awards made to small business firms under small business restricted advertising procedures, were expended under formal advertising methods.

Chairman DOUGLAS. Good work.  
Mr. BOUTIN. Thank you, sir.

#### CENTRALIZED SERVICES

In furtherance of the President's memorandum of January 28, 1964, on reducing the costs of Government and in keeping with this subcommittee's recommendations we have intensified our efforts to consolidate or centralize common administrative support services for Federal agencies.

In addition to the Defense-oriented centralization actions previously described, other recent specific actions include:

1. Thorough preplanning of the new Federal office building in Pittsburgh for consolidation of common services such as training rooms and facilities, health rooms, mailrooms, conference rooms, printing and duplicating facilities, communications facilities, and a retail supply store for common-use items. This effort will save the Government an estimated \$278,000 annually. We intend to repeat the pattern in every new Federal office building where feasible.

2. The consolidated common services program was discussed at length during the March 2, 1964, meeting called by Civil Service Commission Chairman John Macy to review progress of the Federal executive boards. We presented examples of potential economies and actions being taken. All FEB Washington officials agreed to cooperate and agreed that a top-level policy statement was needed on the subject.

3. We are moving forward with feasibility studies to identify savings and economies available through establishment of centralized printing and duplicating facilities. Under this expanded program, the first two plants will be established in Pittsburgh and Cincinnati. Treasury, Agriculture, and other agencies have agreed to participate on a "proof of performance" basis.

#### AUTOMATIC DATA PROCESSING

In your report last year, this subcommittee recommended that the appropriate legislative committee conduct hearings on proposed legislation providing for Government-wide management by GSA of automatic data-processing equipment and resources. GSA strongly endorsed enactment of H.R. 5171 during hearings on the bill on May 28, 1963, before its sponsor, Congressman Jack Brooks, chairman, Government Activities Subcommittee of the House Committee on Government Operations. H.R. 5171 passed the House and is now pending in the Senate. I understand that the Bureau of the Budget is currently discussing with Congressman Brooks and the staff of the Senate committee possible amendments to H.R. 5171 so that this bill would have the full support of the executive branch. Also, Mr. Chairman, as you know, your bill S. 1577 which is similar to the House bill is likewise pending in the Senate.

## REPORT ON ADP EQUIPMENT DUE ABOUT JULY 1, 1964

A further study of automatic data-processing equipment problems is now being conducted by the Bureau of the Budget at the request of the late President Kennedy. Our representatives are working with the Presidential Study Group, and I am personally participating as a member of the Advisory Committee to the group. We expect that a final report will be available about July 1, 1964.

This is known as the Ramspeck Committee and I am sure you are all familiar with it.

In the meantime, arrangements are being made to extend to other areas the Philadelphia experiment in ADP sharing. The first extension will be effected in our Denver Federal Center. GSA now provides ADP services to several agencies around the country. In the Washington area we are providing ADP support to 13 commissions and boards and arrangements are being made to service the Maritime Commission and the Office of Emergency Planning before the end of this fiscal year.

Regulations governing the utilization of excess Government-owned ADP equipment have been prepared and we will have these regulations published within a few days.

## SECOND AND THIRD SHIFT USE OF ADP EQUIPMENT

Chairman DOUGLAS. Mr. Boutin, does this mean you are able to utilize some of the existing machines on a second or third shift?

Mr. BOUTIN. On the sharing program that is exactly what it means, Mr. Chairman. Instead of an agency that has only a limited use going out with their own program, they would come to an agency like GSA, and we have been given the responsibility by the Bureau of the Budget within the last 2 weeks to develop this system of sharing, where they would come into us and we would, if possible, arrange to meet their requirements on existing hardware used by the Government, as in the case that I mentioned.

## OWNERSHIP OF ADP EQUIPMENT

Chairman DOUGLAS. Do you own this equipment yourself or do you get other agencies to share their equipment with the other agency?

Mr. BOUTIN. In the final stages it will be to see what we can bring into our equipment until it is fully utilized and then we look at other folks' equipment. In fact, recently I tried to work out an arrangement with the Air Force at our Hickam Field facility to utilize their equipment.

Chairman DOUGLAS. Are you utilizing your equipment on one shift?

Mr. BOUTIN. We are utilizing our equipment at GSA for the most part three shifts and all of it at least two shifts.

Chairman DOUGLAS. Very good.

Mr. BOUTIN. Actually we are up to the danger point of our equipment. We are up to an average of 19 to 20 hours.

Chairman DOUGLAS. Very good.

## CONCLUSION

Mr. BOUTIN. The foregoing matters illustrate beyond doubt that GSA and DOD are working together as a team, effectively, in bringing to the Government's supply management and related activities

the economy and efficiency envisioned by the Congress in enacting the Federal Property and Administrative Services Act of 1949. Under the cooperative arrangements with DOD as outlined in this statement GSA significantly affects the way in which the Department of Defense spends over one-half of the Nation's budget. The way is, in reality, open for even greater future achievements by GSA toward realization of economy and efficiency in Government.

#### NEED SUPPORT OF COMMITTEE

At this point may I say I hope we will continue to receive the interest and support of this committee, because, believe me, we need it.

Although annual appropriations directly to GSA are relatively small, the discharge of our functions, affecting in some measure expenditures by every Federal agency, has a major impact on the Nation's economy.

We believe that our record shows that GSA has materially assisted the Department of Defense, civil agencies, and the entire Federal establishment in stretching Federal dollars, thus measurably reducing the cost of providing for the Nation's defenses and transacting the other business of the Government.

The significant scope of the impact of action by GSA in reducing Government-wide costs is dramatically illustrated by the following selected illustrations, of which there are numerous others:

1. Our volume buying prices average nearly 20 percent less than agencies would pay for the same supplies if they purchased their individual requirements themselves. Our \$1,256 million procurement program in 1963 reduced the Government's bill for commercial-type supplies by \$228.6 million.

2. GSA operation of the Federal Telecommunications System, consolidation of switchboards, execution of areawide contracts, rate negotiations, and representation before regulatory bodies reduced the Government's cost of telephone and other utility services in 1963 by \$18.6 million.

3. Each square foot reduction GSA is able to accomplish, in the average per employee square foot of space occupied, produces an annual savings to the Government in rental, maintenance, and operation cost approximating \$1.5 million. During fiscal year 1963, we succeeded in reducing the average per person occupancy from 150.3 to 146.8 square feet. This 3½-square-foot reduction saved the Government \$5 million. GSA provides approximately 75 million square feet of office space to Federal agencies. Our goal is to reduce the national average per employee square foot occupancy to 137 square feet by 1970. This action will reduce the Government's cost of office space by nearly \$15 million annually.

4. When records are transferred from agency space to GSA records centers, economies accrue in both space and equipment costs. For example, the 735,000 cubic feet of records transferred to centers in 1963 released for reuse 61,500 filing cabinets, 8,000 transfer cases, 545,000 linear feet of shelving, 307,000 square feet of office space, and 168,000 square feet of storage space. The equipment released had a replacement value of \$3.6 million, compared with records center shelving costs of \$500,000, a savings ratio of 7 to 1. The value of the space released for reuse totaled \$1.1 million, compared with a records center space value of \$70,000, a savings ratio of 15 to 1.

5. GSA's transfer during fiscal year 1963 of excess real and personal property no longer needed by the acquiring agency to other agencies for continued Federal utilization totaled \$620.1 million (at acquisition cost) thereby avoiding expenditures by such agencies for procurement of similar property.

6. GSA strongly advocates meeting long-term space requirements through Government ownership of facilities required to house permanent and continuing Government activities rather than through leasing such facilities, a policy shared with the General Accounting Office. In the absence of public buildings construction authorization or appropriations in the 20-year period since World War II, it was necessary to accommodate Government space needs in leased quarters, much of which is inadequate as well as more costly than Government-owned facilities.

Since enactment of the Public Buildings Act of 1959, GSA has made steady progress in implementing our established policy of Government construction and ownership. To date, the Committees on Public Works have authorized 291 new buildings with a maximum estimated cost of \$1.57 billion, and extension, conversion, repair, and improvement of 188 existing buildings with an estimated cost of \$320 million. An average of about 5 million square feet of new building space will be completed and occupied each year for the next 4 years which will replace more costly leased space and obsolete Government-owned buildings.

As an example is a look down the Mall to the Lincoln Memorial where you see well over 800,000 square feet of World War II tempos finally coming down.

#### GSA SAVINGS ABOUT \$5 BILLION SINCE 1949

Total savings and economies accruing to the Government as a direct result of GSA operations aggregate, as of June 30, 1963, approximately \$5 billion.

Chairman DOUGLAS. This is the summary figure?

Mr. BOUTIN. This is the summary figure since the creation of the agency in 1949.

Chairman DOUGLAS. For what period?

#### EXPECT ANOTHER \$5 BILLION SAVINGS IN 4 YEARS

Mr. BOUTIN. From 1949 right up through June 30, 1963. It took us roughly 14 years to save the Government \$5 billion. If the plans we have now materialize and we receive the support we hope that we will, we will be able to report the second \$5 billion, I am hoping, within 4 years.

Chairman DOUGLAS. I wonder if you would prepare for the record a table similar to that which Secretary McNamara prepared showing the economies, reductions in cost, during the current year which have actually been effected.

First on fiscal 1963, then on fiscal 1964, then the projected economies which will be realized in 1965 by plans already in effect and economies which you believe will be effected in 1967 if projected agreements go through.

Mr. BOUTIN. I would be very happy to do that, Mr. Chairman.

(The following table was subsequently supplied.)

*Anticipated savings and economies accruing to the Government as a result of  
GSA operations, fiscal years 1964, 1965, 1966, and 1967*

[In millions of dollars]

	Selected annual totals			
	1964	1965	1966	1967
1. Savings through improvement of operating procedures and techniques and increased productivity in supply, transportation, and communications operations:				
(a) Savings from large volume buying of supplies and materials for distribution through the GSA supply system and FSS schedule purchasing by using agencies.....	273.0	306.9	338.8	366.7
(b) Reduction in freight costs of GSA and other Government agencies through consolidation of shipments, negotiation of rates with carriers, etc.....	13.0	15.0	16.1	16.1
(c) Reduction in public utilities and communications costs through operation of the Federal Telecommunications System, consolidation of switchboards, execution of areawide contracts, negotiation and representation before regulatory bodies, etc.....	31.3	68.9	74.3	84.3
2. Savings from more effective utilization of Government resources and improvement of consolidated services:				
(a) Reduction in costs of storing strategic materials inventories through greater use of Government excess facilities (primarily DOD), permitting cancellation of commercial warehouse contracts.....	.6	.4	.8	.3
(b) Avoiding rental of office space by increased emphasis on moving dead or inactive records to GSA records centers to release substantial quantities of office space for reuse. Also, filing equipment, steel shelves, and transfer cases were put back into active use, thus avoiding new procurement of similar items.....	4.6	4.7	4.8	4.8
(c) Increased emphasis on better space utilization, to conversion of warehouse and other special use space to office space, and the conversion of excess military and post office installations to office space, have avoided the leasing of space to house the Federal Establishment; also economies from the conversion of manual operations by use of mechanical devices for elevators, boilers, protection, and cleaning:				
(1) Conversion of special use and excess space to office space.....	7.3	7.0	13.1	9.7
(2) Conversion of manual operations by use of mechanical devices <sup>1</sup> .....	.6	1.0	.7	.5
(d) The expansion of the motor pool program (activated in 1954) as compared with prepool operations by agencies continues to pay dividends to the Government—annual savings.....	11.6	14.4	15.4	16.5
(e) The transfer of excess personal and real property among Federal agencies for reuse avoids expenditures for procurement of similar items. The recent establishment of the Utilization and Disposal Service in GSA has brought together the know-how which was previously dispersed within the organization and has contributed to growth of the program as well as actually realizing a better return on sales:				
(1) Utilization transfers (acquisition cost).....	640.0	710.0	750.0	790.0
(2) Proceeds from sales of:				
(a) Personal property.....	10.1	11.0	11.4	11.7
(b) Real property.....	100.4	115.0	117.0	115.0
(3) Rehabilitation of personal property and distribution of such property through the GSA supply system (acquisition cost).....	51.0	58.0	66.0	75.0
3. Through constant attention to improving our organization, making maximum use of automatic data processing techniques, expansion of common services for use by other agencies, and improvement of our operating procedures, we have made savings which may be termed "administrative improvements":				
(a) Expansion of GSA printing plant operations for use by other agencies in the field.....	.2	.5	.1	.1
(b) Automation of mass paperwork operations in accounting, payrolling, billings, and collections.....	.1	.6	1.2	.4
(c) Economies resulting from audit of contractor operations and adoption of employee suggestions for improvement of procedures.....	1.0	1.2	1.3	1.4
Total.....	1,144.8	1,314.6	1,411.0	1,492.5

<sup>1</sup> This new heading gives effect to savings accruing from this operation for the 1st time in 1964 and in following years.

## TIMETABLE FOR PENDING ACTIONS

Chairman DOUGLAS. I think that would be very important. I will ask just one question and then Congressman Curtis will have his chance.

It is always the tendency of legislators to assume excessive importance and perhaps exaggerate their role in negotiations. I have the feeling, however, that you perhaps would not have reached an agreement between the General Services Administration and the Department of Defense on paint and handtools if I had not been rather tough and had insisted on a time limit by which you should reach an agreement.

You may remember that it was a very heated session which we had—at least heated on my part—and I think you were a perfect gentleman throughout but I do not think that I was.<sup>1</sup>

Now I think that had a part in reaching an agreement. You do not have to agree to that but this is my belief. May I ask this: Have you set a time limit on which you should have agreements on these other matters? You have July 1 for the Defense Department. Do you have a decision from Post Office on any given date?

Mr. BOUTIN. No. On Post Office, that is pending over at the Bureau of the Budget. I understand that the Director has discussed this with the President, and I would expect that there would be a determination made on that very soon.

Mr. Staats is going to testify today and he can give you a better date.

Chairman DOUGLAS. He will testify right after you. He is sitting behind you. Have you got a time limit for the VA?

Mr. BOUTIN. No, we have no time limit. That study has just started, Mr. Chairman.

Chairman DOUGLAS. Have you a time limit for NASA?

Mr. BOUTIN. The NASA agreement is in tentative form right now and that is way down the road. That is largely dependent on the outcome of the DSA-GSA study to be completed by July 1.

Chairman DOUGLAS. The Federal Aviation Agency?

Mr. BOUTIN. The Federal Aviation Agency is in agreement in principle with what we are doing. They have already closed out Seattle. They have already closed out Honolulu. They have already changed their methods of supply at Oklahoma City on common-use items.

Chairman DOUGLAS. How about the State Department? That will take some time.

Mr. BOUTIN. Part of that is implemented, part is not implemented, sir.

## PROGRAM IMPLEMENTATION TO TAKE 1½ TO 2 YEARS

Chairman DOUGLAS. Can you give me a schedule? I know you can't do this alone because this is at least a bilateral, possibly a multilateral affair.

Mr. BOUTIN. I would hope, Mr. Chairman, that the study to be completed by July 1 will provide sufficient guidelines so that we can start immediately with an implementation of the program that probably

<sup>1</sup> See staff report, 1964, app. 5, pp. 169-177.

would, because of its magnitude and the phaseout of stocks, be stretched out over a period of 18 months to 2 years.

I think we are within 3 months of final determination or final decision. I will be greatly disappointed if we deviate from that time schedule.

Chairman DOUGLAS. Mr. Ward has called my attention to the fact that in the staff report, which we issued in April 1964, on page 160 we do have a table somewhat similar to that which I requested of the supplementary material which you are to file.<sup>1</sup>

Mr. BOUTIN. Very good, sir. Thank you.

Chairman DOUGLAS. Mr. Curtis?

#### AGREEMENT AND ROLE OF BOB

Representative CURTIS. On reaching the agreement, I would like to understand more about the modus operandi. Would that require going through the Bureau of the Budget? Does the Bureau of the Budget act as the catalytic agent on most of these?

Mr. BOUTIN. Actually, because the Bureau of the Budget has the final authority on transfer of funds, they would be in effect the final authority. However, under the act itself the Administrator has the sole authority to make determinations, subject to the direction of the President. But he has been given the authority by Congress to make the determinations on which is the most efficient and economical method of supply and procurement for the Federal establishments.

Representative CURTIS. But in order for this committee to follow these agreements, and particularly to set up these schedules, we would be well to recognize on all of these—and this is just to get out what the method of operating is—that the Bureau of the Budget is involved, as they should be.

#### COMMITTEE NEEDS SCHEDULE OF ACTIONS

I hope we get this schedule. I hope when a representative of the Bureau of the Budget testifies, we can go into a little more detail, particularly why this one matter that you discussed last year is still sitting in the Bureau of Budget.

#### BOB HOLDING SURPLUS DISPOSAL STUDY AND POST OFFICE SUPPLY MANAGEMENT

Mr. BOUTIN. That is on the disposal of personal property.

Representative CURTIS. Yes.

Mr. BOUTIN. The only other one that has been pending for any length of time involves post office supply management. I might say, if the committee is interested, that this has been almost a full-time job for Roger Jones and some of the people on his staff reporting directly to Mr. Staats and the Director. They have been in almost daily contact, with us, with Defense, with VA, and other agencies.

Roger, because of the wide experience that he has had all through the Federal Government, including long service in Defense, has been of great assistance to us.

<sup>1</sup> See staff report, 1964, p. 160.

Representative CURTIS. Mr. Chairman, Senator Javits can't be here, so could we have permission that he supply some written questions for the record relating to the impact of the "Buy American" Act on the cost of Federal procurement?

Chairman DOUGLAS. Yes, indeed.

Mr. BOUTIN. I would be happy to do it.

(See appendix 3, p. 297 et seq., for questions and answers referred to.)

#### DATA ON GSA PROCUREMENT

Representative CURTIS. I would like to get the aggregate dollar figures of the amounts handled now by GSA for procurement in recent years to show the progress. Probably the important amount would be vis-a-vis the Department of Defense.

Mr. BOUTIN. I think I could be a little helpful there. We will supply all of this for the record. In fiscal 1963, our total procurement was \$1.250 billion in round figures. In fiscal 1964, it is expected to be \$1.4 billion. In fiscal 1965, we are projecting approximately \$1.550 billion.

Representative CURTIS. Would these figures essentially mean a shift from Defense Department procurement, or are they limited to the Defense Department?

Mr. BOUTIN. No; they are not limited to the Defense Department. This is overall. Our total business in Federal procurement, projected for 1965, is 70 percent, with the Department of Defense, 30 percent with the civilian agencies. This NASA agreement, Congressman, could considerably offset this ratio because of the tremendously large NASA program.

Representative CURTIS. In the figures you supply for the record would you show the breakdown you have to help us to follow this progress.

Mr. BOUTIN. I would be very happy to. (Se p. 200.)

#### ECONOMIES DEPENDENT ON OVERALL REDUCTIONS

Representative CURTIS. Of course, this is not good unless concomitantly the Department of Defense is showing a decline in these items. There may be a total growth for other reasons in the Department of Defense, but certainly if this is going to be meaningful, there should be some indication of savings in the aggregate figure.

Mr. BOUTIN. I can assure the Congressman and the committee this is so. Secretary McNamara would never agree to anything unless it earmarked exactly what he was going to get in return.

#### TWO HUNDRED POSITIONS REDUCED BY HANDTOOL AND PAINT TRANSFER

A very good example of that is paint and handtools where a reduction in Defense of 700 positions resulted. We used 500 of those positions and 200 were completely wiped out.

Chairman DOUGLAS. I think I should amplify the record on the handtools and paint. Congressman Curtis was present at all of those



meetings and was very valuable, and I want to say, like the Administrator, he was a gentleman in his conduct and I was the only one who was not a gentleman.

Representative CURTIS. I want to say to the chairman you are very kind and you have relieved my mind. As I recall the occasion, I am afraid that I erred on the side of possibly not being as polite as I might.

Mr. BOUTIN. I remember that as a pretty good meeting.

*GSA procurement in relation to DOD, fiscal years 1954 through 1963*

[In billions of dollars]

Fiscal year	DOD <sup>1</sup>	GSA			
		Direct <sup>2</sup>	FSS schedule <sup>3</sup>	Total	Percent of DOD
1954.....	11.9	0.8	0.3	1.1	9.2
1955.....	15.5	1.0	.3	1.3	8.4
1956.....	18.2	.7	.3	1.0	5.5
1957.....	19.9	.7	.4	1.1	5.5
1958.....	22.8	1.0	.4	1.4	6.1
1959.....	23.9	.8	.5	1.3	5.4
1960.....	22.5	.6	.5	1.1	4.9
1961.....	24.3	.7	.6	1.3	5.3
1962.....	27.8	.8	.7	1.5	5.4
1963.....	28.1	.8	.8	1.6	5.7

<sup>1</sup> Composition is not known to GSA therefore data may not be comparable with GSA data.

<sup>2</sup> Includes all procurement for property, repair and construction of buildings; excludes transportation and public utilities services, items of \$100 or less, activities outside the United States, and personal services.

<sup>3</sup> Represents Government-wide purchases under FSS contracts.

NOTE.—Figures for DOD (second column, above table) taken from OSD table 6 which appears on page 8 of Joint Committee print "Background Material on Economic Aspects of Military Procurement and Supply—1964"; and is reprinted below.

TABLE 6.—*Net value of military procurement actions in the United States and possessions, fiscal years 1951-63*

[In billions of dollars]

Fiscal year	Net value of military procurement actions	Fiscal year	Net value of military procurement actions	Fiscal year	Net value of military procurement actions
1951.....	31.9	1956.....	18.2	1960.....	22.5
1952.....	42.2	1957.....	19.9	1961.....	24.3
1953.....	28.4	1958.....	22.8	1962.....	27.8
1954.....	11.9	1959.....	23.9	1963.....	28.1
1955.....	15.5				

Source: "Military Prime Contract Awards and Subcontract Payments, July 1962-June 1963," Office of the Secretary of Defense.

## SHIFTS PLANNED TO DOD

Representative CURTIS. Now on this same subject we have a two-way street to some degree. You are planning on some shifts to DOD, as I understand it.

Mr. BOUTIN. Yes, provided the Department of Defense, in their evaluation of the study that is currently going on, agrees that it will serve the civilian side of the Government as well as the military.

## PLAN FOR SUBSISTENCE

For instance, in subsistence, perishable and nonperishable, the GSA would get out of that business. The VA would not be in that business. Public Health would not be in that business. Bureau of Indian Affairs would not be in that business. We would all secure our requirements from one source, the Department of Defense.

## ELECTRONICS, MEDICAL SUPPLIES, PETROLEUM SUPPLIES

The same is true concerning electronics, medical supplies, petroleum supplies. Presently there could be anywhere up to five or six agencies in exactly the same field in any number of different commodities. This is what we are trying to prevent to purify the system.

## DOD MANAGING CIVILIAN SUPPLY

Representative CURTIS. I certainly am in full accord with the consolidation, but I must confess that I am very disturbed about putting a uniform on it. In fact, one of the reasons I was very happy with the establishment of GSA and the further utilization of it—using the same metaphor—was that we took the uniform off it. I do not see the advantage in longrun training of military officers in procurement for any of these items—food, electronics, medical, petroleum, or a lot of others. This is a civilian operation. Military officers should be trained, in my judgment, in military science.

I worry very much about the consolidation in the military sector for another reason. In the military sector we must have personnel systems based upon military justice for very good reasons. Again you put the uniform on it, as it were, and you get inefficient administration in a civilian-type operation, as a result.

## IS MILITARY SCIENCE INVOLVED?

I hope very much that there will be a reevaluation of this trend. We had it in the paint and handtools sector, because the military pointed out that they were the prime procurers. Indeed, they are on a percentage basis. But does this lend itself to something that requires military science? I submit it does not. Procurement of food certainly does not. I am very disturbed about this.

It looks like we are getting back to what we had many years ago in this long battle to bring about efficiency in the three different service branches. Instead of a real consolidation we had a parceling out of duties. For example, in petroleum inspection, the Air Force inspected for the two other sister services in one section of the United States,

while the Army and Navy each had their inspection service. Thus, each one maintained its own empire.

This seems to be a question of balancing off, with GSA getting certain items; in order to preserve the empire, the military is going to acquire some also. What possible reason is there for the military taking over food, for example? Certainly they procure the bulk of the food that is acquired by the Federal Government. But does this lead to the best procurement system?

#### STUDY INVOLVES 100,000 ITEMS

Mr. BOUTIN. Congressman, actually in our evaluation of all the items I have only mentioned three or four. Actually, we are talking about thousands. The pilot study alone involves 100,000. That is just a beginning. We are talking of a total here of something in the vicinity of 3 million items or between 2 and 3 million items that will be very carefully evaluated. But taking food as an example, with the quantities of food the Department of Defense buys and with their established plant for handling it, they can absorb the civilian agency requirements and hardly feel it at all.

#### WHAT IS BEST PERMANENT SYSTEM?

Representative CURTIS. I can understand that, but we are talking about something that is permanent, I hope. Is it permanently advantageous to have military officers, trained in military science, operating under a personnel system that is based on military justice, handle the procurement of food for the Government?

#### NEED FOR BASIC GUIDELINES

These are the kind of guidelines I would hope to have established here. I recall one of the old studies of the Bonner committee, on coffee. The Military Establishment was heavily in the business of not only roasting coffee, but actually procuring green beans down in Brazil.

The point I tried to make then was that a society of 180 million drank about the same amount of coffee whether there were 10 million in uniform and 170 million out or 3 million in uniform and 177 million out. In other words, mobilization for military purposes simply required preemption from the military standpoint.

As long as the amount of coffee or food was available in the society, it was simply a question of giving the military priority in time of war and mobilization. But as far as running the system is concerned, you certainly do not have to run it under an operation of saluting or the Code of Military Justice. It is a very inefficient way of proceeding, I would suggest.

A second Bonner committee study was on medical supplies; another heavy counterpart in the civilian sector. Any study of the use by the military of trained medical personnel makes me shudder. Again, there is misuse of medical personnel. Does this lend itself to an operation under a military uniform and the Code of Military Justice?

I think what most concerns me are the guidelines being used presently to make these determinations on switching the consolidation of

these back to DOD. Electronics will require a little more examination because I can see that the tremendous research and development going on here which must be militarily oriented and may be advantageous. But the others, such as petroleum supply, are all predicated on the same thing as the issue involving handtools and paint.

#### PREPONDERANCE OF BUYING NO REAL CRITERION

As you recall, the decision was that they were going to remain in the military. Why? Because the military bought the lion's share of the supplies. If we use that as a criterion, the military has been buying the lion's share of practically all of these supplies. That is no criterion at all in my judgment.

Mr. BOUTIN. Actually, Congressman, in making this study and putting together this plan we have not gone—nor frankly do I feel qualified to begin to do it—into the philosophical development that you are approaching here.

What we have done is to set up criteria for supply management decisions by commodity lines on the basis of whether there is a military requirement for management, because of their peculiar requirements for items from the standpoint of supporting the Armed Forces, military uses view and because of already existing DSA capability to manage the item. The commercial-type items, under the terms of this agreement, by and large will come to GSA, unless there is a bona fide need in the strongest terms, for military management for military users in support of military operations.

#### PROCUREMENT OF FOOD FOR TROOPS

Representative CURTIS. What is there about food that makes it qualify? It is simply a question of getting the food that exists to the troops. That does not mean they have to get into the business of buying. You could carry this right on down. Some of the military people I have talked to would like it this way. They would be raising the wheat from which they make the bread.

What is the proper and efficient cutoff point where you utilize a personnel system which operates under the Code of Military Justice and the uniform? Where is your cutoff point? In this society we have to make this decision on the basis of some intelligent guidelines.

#### NEED FOR FUNDAMENTAL CONCEPTS

We can disagree where those guidelines should be. I had hoped that this movement going on between DOD and GSA was based upon some fundamental concepts. The more of it I see, the more I am worried that it is one of these power politics plays. This was the case when we tried to bring about the unification of the three services and ended up, at least temporarily on some of the items like petroleum inspection, in this parceling agreement where each one of the services retained a little bit of an empire.

What is so special about food, for example, that would make you go to the military instead of moving the way we did on handtools and paint?

## ECONOMIC IMPACT OF FEDERAL

Mr. BOUTIN. I think on both the question of subsistence, perishable and nonperishable, and the question of electronics, on the question of medical supplies, just to cite three of them, Congressman, we have a situation where they have in existence, developed over a great many years, more know-how than was represented in the rest of the Government in performance of their own military mission for supplying food to troops in the field.

### KNOW-HOW

Representative CURTIS. Let us stop there. That is what we are talking about. What kind of know-how was it? That is why we had the hamburger hearings several years ago. That is why we had these samples. Because it was not know-how. It was not an efficient system. That is how we found they had a 2-year supply of green coffee beans in the Navy alone.

When we started looking into it, we cut it back to just a 6 months' supply, saving some \$40 million. It is because this so-called know-how is in question.

### NEED TO CONSIDER LONG-RANGE POINT OF VIEW

I submit that in light of this, maybe we have not gained anything over the years in trying to establish some criteria. Again the key is: What kind of personnel system is best suited to perform these functions? I must say I am distressed on this point, and I hope we can start thinking on this long-range point of view on whether paint and handtools, clothing, food, or medical supplies, go to GSA or DOD.

### THREE BASIC PROBLEMS

In other words, there are really three basic problems, as I see it. One, when the Federal Government itself is going to remain in the business, is it best handled through the military structure, or the civilian sector, the GSA?

Second, if it does remain in the military, should there be a consolidation between the three services? I happen to feel in certain areas there is an advantage to maintaining the integrity of the U.S. Navy, of the U.S. Army, and of the Air Force. But in certain areas it looks like consolidation is the solution.

Then, the third and very important problem that underlies all of it is, should this be done out of the governmental sector itself, and should it be procured by contract through the private sector?

These are the three areas that we have to resolve each time. I hope by now we would begin to establish some basic guidelines upon which we could render an intelligent decision.

### ROLE OF SMALL BUSINESS

I have some other specifics to discuss. Let me go to one on small business, because I am just a little bit concerned about this, too. This is, I think, a real difference of opinion between me and those who are

administering the Small Business Administration. As it relates to you, in my judgment, the way you move toward a better participation of small business in military or Government contracting is through a further development of advertised bids—not the set-aside principle.

#### SMALL BUSINESS AND ADVERTISED BIDDING

I worry about these set-asides where you arbitrarily disregard efficiencies and simply say, "small business shall have this percentage." Our studies reveal that small business will get its share as advertised bidding goes up. There is another factor, and I am pleased you have emphasized it, which is the importance of getting out information and the standardization of items. I commend you for that emphasis.

#### DRAWINGS AND SPECIFICATIONS

I would draw attention to a third factor which you do not mention and was only mentioned to some degree but not emphasized by the Secretary of Defense. That is the need for engineering drawings and tight specifications, even on items like chairs or furniture.

Small business will likewise do pretty well when there is certainty which can be brought about through engineering drawings and better specifications.

Would you comment on that point? Would you tend to agree with that analysis?

Mr. BOUTIN. I would definitely, Congressman, and I would like to comment on both of the points you made. On the small business portion, this is exactly our experience. Actually, while we are up to around 57 percent small business participation in our awards, our set-aside program is only around 10 percent. The program that we have is largely administered by Mr. Griffin and his people through our business service centers.

We go out into the field and beat the bushes and we encourage people to bid and encourage them to do business with the Government. Some of these businesses are so small that they do not have a full-time lawyer. So we will advise them how to fill out a form.

Representative CURTIS. My definition of a small business is one that can't afford to have its lobbyist in Washington. I think it is probably the most accurate definition of small business we can get.

Mr. BOUTIN. Concerning specifications, your point is well taken. That is why we have put such emphasis on the development of new specifications.

Mr. Ritter, who is in charge of our specification shop, has devoted a tremendous amount of time to this. We found a couple of things. No. 1. It has opened up the bidding substantially. No. 2. It has helped us to get away from the name brand or equal type of bid invitation.

With good specifications—and these are developed with the full knowledge and help of private industry itself—we get the industry representatives in. Sometimes it will take as much as a year properly to develop a specification. With this agreement we have with Defense

there will be no more duplication in development of specifications. We will be working hand and hand straight through.

I would like to go back a minute to the statement that the Congressman made before. I can assure you, and I would like to leave with you a copy of the tentative agreement we have with DSA on this whole supply logistics problem, that no one is trying to create a kingdom but rather, we are trying to destroy a lot of little ones.

(Agreement referred to appears on pp. 208-213.)

Mr. BOUTIN. While I acknowledge that we did not go into the philosophical approach that the Congressman has discussed, we have tried here to establish a basis for a decision as to which agency should supply what item on a good sound basis for determining who can do it most economically and most efficiently, recognizing the basic program mission of both agencies.

We do not say that each decision made after July 1 is going to be, in every sense, the best decision that could be made. This will come only over a period of time. But our tentative agreement is a great step forward, at least.

Representative CURTIS. Let me say lest there be any misunderstanding, that I certainly am quite pleased with the progress report, Mr. Boutin. I told you that privately, and I certainly would say publicly, that there is movement forward. Certainly in the shift you will even bring about a consolidation, which is very desirable.

I am raising a basic and perhaps philosophical theory, but it gets down to the dollars and cents which we are talking about. There are some questions that I would like to supply to you for the record, if you could give us your answers on them. (See pp. 199 and 297.)

I did want to mention one other thing on small business. I was very pleased with the report of the Secretary of Defense on the breakouts where we can go directly to the subcontracting level, but we need to do more. The prime contract in many instances has to be negotiated with a large company. But properly handled, there can be some very good subcontracting on an advertised basis or through the breakout where you could directly procure the component under the contract.

I think you have been pursuing that course, have you not?

Mr. BOUTIN. Yes, we have.

Representative CURTIS. The other questions I think I will leave for the record, with one comment. I am concerned about warehousing where you said that you had gone on the basic principle of having the Federal Government actually own rather than rent.

Mr. BOUTIN. Yes, sir.

Representative CURTIS. That may be well, but I would like to see the cost accounting justifications for these things, particularly as to whether we include it as a cost factor which I term "in lieu of local taxes." Local taxes provide the police, fire protection, streets, sewers, and other services.

I have always felt that good cost accounting should use that as a factor when estimating whether it is better for the Government to own or lease. I think sometimes it falls one way, sometimes the other. But if we are proceeding in retaining Government or setting a policy of Government to enter further, I think we must be very careful with our cost accounting.

I would presume that these judgments are being made on cost accounting practices.

Mr. BOUTIN. Indeed that is true, Congressman. In fact, GSA has acquired almost all of its warehousing facilities from excess declarations from the Department of Defense, either by permit or direct transfer, agency to agency. There are exceptions. We have a huge new warehouse under construction right now in Denver, Colo., nearing completion, but there were no others available, either commercially or by transfer from Government.

#### PAYMENTS IN LIEU OF TAXES

Representative CURTIS. Let me ask as a test case: Do you have anything in lieu of local taxes that is paid to the community when you come in and take a hunk of land out of the tax base?

Mr. BOUTIN. No, we do not, except for the old Reconstruction Finance Corporation properties. For instance, in Kansas City, the huge Westinghouse plant that we have converted to depot use, we have 78 acres under one roof there. Because it was a Reconstruction Finance Corporation property it is under the act that is reenacted by the Congress about every 2 years. We do make a payment in lieu of taxes.

Of all of the properties in our inventory including those that are under lease to private industry, that we have something like four or five on which we are making payments in lieu of taxes.

Representative CURTIS. Thank you. I will supply the other questions. (See app. 1, p. 278.)

Mr. BOUTIN. Thank you, very much.

Chairman DOUGLAS. Thank you very much, Mr. Boutin. I think you and your administration have made an extraordinary record. I am sure you will continue in your well-doing. We will try to assist you in every way we can.

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

NOTE.—Subsequent to the hearing, committee staff requested GSA for a tabulation showing the amount spent by GSA for cataloging civil agency items under the Federal catalog system; also requested was a copy of the agreement between DOD/GSA on the test of the 100,000 line items of supply to determine the feasibility and economic justification for the new supply concepts discussed by the Administrator. The material supplied in response to these requests follows:

#### *GSA expenditures for cataloging, 1950 through 1963*

1950	-----	\$74, 910
1951	-----	566, 607
1952	-----	930, 169
1953	-----	-----
1954	-----	-----
1955	-----	-----
1956	-----	217, 336
1957	-----	425, 760
1958	-----	538, 573
1959	-----	557, 390
1960	-----	554, 578
1961	-----	636, 332
1962	-----	1, 430, 230
1963	-----	1, 385, 109



GSA Agreement with DOD on test of 100,000 line items of supply.

Revised by Data Design Team  
and presented to Steering  
Committee on 12 Feb 1964

PLAN OF ACTION TO BE FOLLOWED IN TESTING PROPOSED  
"AGREEMENT BETWEEN DOD AND GSA GOVERNING SUPPLY  
MANAGEMENT RELATIONSHIPS"

BACKGROUND:

Following study jointly performed by representatives of DSA and GSA, a proposed agreement between DOD and GSA has been developed. The objectives of the agreement being to identify, clarify, and stabilize the respective supply management roles of DSA and GSA. At the direction of the Administrator of General Services and the Assistant Secretary of Defense (Installations and Logistics), the proposed agreement will be subjected to a test to be performed jointly by representatives of the GSA and DSA.

SPECIFIC OBJECTIVES OF THE TEST ARE TO DETERMINE:

- Reliability and validity of criteria and principles embodied in the proposed agreement as a basis for supply management assignment determinations.
- Feasibility of application of criteria.
- Overall impact of implementing the agreement.
- Methodology and techniques to be applied in the overall analysis of integrated supply classes assigned to DSA.
- Requirement for refinement and/or modification of the proposed agreement.

SCOPE OF TEST will involve the following Federal Supply Groups and Classes:

<u>DSC</u>		<u>FSG/FSC</u>	<u>Approximate No. of Items</u>
DGSC	5975	Electrical Hardware and Supplies	8,000
	6750	Photo Supplies	900
	9330	Plastic, Prefabricated Materials	1,050
	9350	Refractories, Fire Surfacing Materials	250
	81	Containers, Packaging, etc.	2,200

<u>DSC</u>		<u>FSG/FSC</u>	<u>Approximate No. of Items</u>
DISC	3110	Anti-Friction Bearings	13,500
	5345	Discs, Stone, and Abrasives	700
	5325	Fastening Devices	6,100
	5340	Miscellaneous Hardware	46,700
DCSC	4210	Fire Fighting Equipment	2,360
	48	Valves	6,800
	4710	Pipe and Tube	5,100
	4730	Fittings and Specialties	39,300

NOTE: Items with less than \$100 a year demand within the DOD will be excluded from test consideration.

APPROACH:

The test will be conducted in two major phases:

Phase I (Data Design and Machine Processing)

Initial efforts will be to translate as many of the criteria as is practicable to objective factors which are compatible with machine acquisition and processing. Phase I will result in classification of test items into three categories:

- A. To be retained by DSA.
- B. To be managed by GSA.
- C. Those requiring further commodity analysis by the designated Commodity Test Team.

Phase II (Commodity Analysis by Teams)

Efforts in Phase II will be directed toward commodity analysis by three teams of those items which did not readily lend themselves to supply management assignment decisions when applied against the objective data factors developed in Phase I. This phase may also involve the validation of decisions reached through machine processing in Phase I.

SEQUENCE OF ACTIONS:

Preliminary:

- Designate coordinators (completed).
- Designate Steering Group.
- Form Data Design Team composed of: (ECD 23 Jan 64)
  - 1 DSAH
  - 1 each DCSC, DGSC, DISC
  - 1 Technical Advisor DLSC
  - 4 GSA representatives

Phase I:

- Orient Data Design Team with regard to proposed agreement, test requirements, and specific functions to be performed. (ECD 28 Jan 64)
- Data Design Team develop specific data requirements, indicators and data sources to be utilized in Phase I. Report to Steering Group and obtain approval of approach. (ECD 5 Feb 64)
- Develop procedures and definitions for data application by source agencies, procedures for data acquisition, processing, and application by Commodity Test Teams. (ECD 14 Feb 64)
- Data Design Team report progress to parent commands. (17-18 Feb 64)
- Data Design Team return to DSAH and write instructions for Phase I analysis by Commodity Test Teams. (19-20 Feb 64)
- DLSC airmail "Initial Data Requirements" cards to Centers and GSA. (24 Feb 64)
- Form and indoctrinate Commodity Test Teams. (26-27 Feb 64)
- Letter to Services explaining test. (26 Feb 64)
- Centers receive "Initial Data Requirements" cards and process. (26 Feb-4 Mar 64)

- Brief Military Services on tasks required to complete test. (2-6 Mar 64)
- Commodity Test Teams review "Initial Data Requirements" cards and report results to DSAH. (5-10 Mar 64)
- Forward items remaining in test to Military Services except FSC 3110 for which DISC will perform the data accumulation. (13 Mar 64)
- Services receive and accumulate data, forwarding classes as completed to DLSC after on-site review by the Commodity Test Teams, as necessary. (17 Mar-15 May 64)
- Commodity Test Teams visit Military Service participants to check initial reaction and problems. (18-26 Mar 64)
- Commodity Test Teams report to the Steering Group. (27 Mar 64)
- Military Services complete final classes and forward to DLSC for analysis run after Commodity Test Teams have on-site validated product being forwarded to DLSC, as necessary. (15 May 64)
- DLSC make analysis run and mail results to Commodity Test Teams in Centers. (18-21 May 64)
- Commodity Test Teams make Phase I analysis. (25 May-5 Jun 64)
- Commodity Test Teams report results of Phase I to DSAH and establish scope of Phase II. Brief Steering Group. (8-9 Jun 64)
- Document Phase II effort. (10 - 12 Jun 64)
- Phase II analysis (15 Jun-3 Jul 64)

TASK GROUP COMPOSITION AND ORGANIZATION

Steering Group

<u>DSA</u>	<u>GSA</u>
3	3

Coordinators

<u>DSA</u>	<u>GSA</u>
1	1

Data Design Team

<u>DSA</u>	<u>GSA</u>
4	4

GSC Commodity Test Team      DISC Commodity Test Team      DCSC Commodity Test Team

1 DSA Team Administrator	Same	Same
1 GSA		
1 DSA		
1 GSA		
1 DSA		
1 GSA		

DGSC

DISC

DCSC

\*Test Classes

\*Test Classes

\*Test Classes

\*See "Scope of Test" - Page 1,  
for test classes.

TASK GROUP COMPOSITION AND FUNCTIONS

1. Steering Group: Will be composed of equal representation from DSA and GSA with the composition to remain stable for the period of test. Function of the Steering Group will be to give policy direction and interpretation, and through the Coordinators, to generally oversee the conduct of the test. In addition, and upon evaluation of the findings of the test, to incorporate such requirements and modifications into the proposed agreement as the test may reveal to be necessary.

2. Coordinator: One person will be designated as Coordinator for each Agency. Function of the Coordinator is to serve as intermediary between the Commodity Test Teams and the Steering Group in the resolution of day-to-day problems not requiring action by the Steering Group. Additionally, to serve as a focal point for each Agency in the exchange of information, status reporting, and general surveillance over progress in the conduct of the test. In addition to duties indicated above, the DSA Coordinator will function as liaison between the Test Teams, Military Services, and DSCs and the GSA Coordinator in the acquisition of data and as otherwise required during the conduct of the test.

3. Commodity Test Teams: The test will be performed by three teams. Team representation to be limited to three DSA and three GSA representatives with one of the three DSA representatives to be designated as Team Administrator. Changes to team composition will normally not be made for the duration of the test and if made will require the prior agreement of both agencies. Teams will be responsible for testing the classes as indicated in "Scope of Test" - Page 1. Function of the teams will be, through application of the criteria included in the proposed agreement, to identify which Federal Supply Groups, Classes, or items should be managed by DSA, GSA, or both. Each team will be sub-divided into three elements. Each element consisting of one GSA and one DSA representative will jointly review each item assigned to their sub-element for analysis. Since a major purpose of the test is to identify potential problem areas, any conflict in interpretation or opinion not immediately and mutually resolvable will be held aside and presented in writing to the Steering Group through the Coordinators, along with such other problems as may be identified during the course of the test.

4. Team Administrator: In addition to functioning as a working member of the team, the team administrator will function as the point of contact between the team, DSCs, HQ DSA, and other Agencies as required in performance of the test. Additionally, the Team Administrator is responsible for the availability of all team members and their adherence to work schedules and for reporting instances of violation or infraction. Conversely, the Team Administrator will not serve as authority in the resolution of conflict nor in interpretation of the agreement to be tested. Team Administrators will be the focal point for referral of problems to the Coordinator.

/s/ R. L. Watson, for 27 Jan 64  
W. J. GARVIN  
Deputy Assistant Director,  
Plans, Programs, and Systems  
(Programs and Management)

(signed) \_\_\_\_\_ January 23, 1964  
J. E. MOODY  
General Counsel  
General Services Administration

Chairman DOUGLAS. Our next witness is Mr. Elmer B. Staats, Deputy Director of the Bureau of the Budget. Mr. Staats is a very busy man. He has appeared before us on many occasions and has always given us frank, honest, and valuable information. I would regard him indeed as the very model of a civil servant.

We are very happy to have you with us once again.

**STATEMENT OF ELMER B. STAATS, DEPUTY DIRECTOR OF THE BUREAU OF THE BUDGET; ACCOMPANIED BY ROGER JONES, SPECIAL ASSISTANT TO THE DIRECTOR; GEORGE MULLINS, HEAD OF SUPPLY MANAGEMENT BRANCH, OFFICE OF MANAGEMENT; AND CLIFFORD J. MILLER, BUDGET EXAMINER, MILITARY DIVISION**

Mr. STAATS. Thank you, Mr. Chairman.

I have accompanying me this morning, Mr. Roger Jones, to my right, Special Assistant to the Director. On my immediate left,

George Mullins, who is head of our Supply Management Branch of our Office of Management organization, and Mr. Clifford Miller, of our Military Division, who has been concerned with the Defense Department.

I have a statement, Mr. Chairman, and with your permission I should like to read it.

Chairman DOUGLAS. You may proceed, Mr. Staats.

Mr. STAATS. I appreciate this opportunity to review again, from the point of view of the Bureau of the Budget, the progress being made to improve procurement and supply management and related activities in executive agencies.

The Bureau of the Budget has a primary concern with the impact of defense expenditures on the President's budget. In 1960, when this subcommittee held its first meeting, I included in my statement a table showing the amount of expenditures for defense procurement as related to other major categories of expenditures for defense.

I believe it will be useful again to review briefly a similar table, which will permit comparison with current estimates.

(The table referred to follows:)

*Summary of military expenditures*

[In millions]

Expenditure category	Actual, 1959	1960 esti- mate at time of first hear- ings	Actual, 1963	From Budget document January 1964	
				Estimate, 1964	Estimate, 1965
Military personnel.....	\$11,801	\$11,959	\$13,000	\$14,180	\$14,660
Operation and maintenance.....	10,384	10,137	11,874	11,870	12,278
Procurement, total.....	14,410	13,943	16,632	16,337	14,785
Aircraft.....	7,658	6,670	6,309	6,554	5,712
Missiles.....	3,339	3,500	3,817	3,506	3,285
Ships.....	1,493	1,651	2,522	2,280	2,114
Other.....	1,921	2,121	3,983	3,997	3,674
Research, development, test, and evalua- tion.....	2,859	3,680	6,376	6,943	6,580
Military construction.....	1,948	1,670	1,144	1,107	1,056
Family housing.....			427	680	660
Civil Defense.....			203	150	150
Revolving and management funds.....	-169	-444	-1,401	-367	-169
Total, military functions.....	41,233	40,945	48,252	50,900	50,000
Military assistance.....			1,721	1,400	1,200
Total.....	41,233	40,945	49,973	52,300	51,200

Mr. STAATS. I think the relevance of this table, Mr. Chairman, is to show the dimension of the problem that we have in management of procurement and supply in the Defense Department.

In 1960, when the subcommittee held its first hearings, we estimated that total military expenditures would be about \$41 billion for fiscal years 1960 and 1961, or about the same as the actual expenditures for fiscal year 1959. Actual expenditures for 1963 were almost \$50 billion, nearly \$9 billion more than in 1960.

The estimate for the fiscal year ending June 30, 1965, is \$51.2 billion, or about \$10 billion more than in 1960. In 1960, about one-third of all military expenditures were for procurement and this proportion generally has continued until in 1965 we estimate that procure-

ment will account for about 29 percent of total military expenditures. More than one-fifth of all expenditures for procurement will be for missiles, and two-fifths will be for aircraft.

Expenditures for research, development, test, and evaluation have continued to climb from the estimate of \$3.7 billion in 1960 to \$6.9 billion in fiscal year 1964, declining in the 1965 budget to \$6.6 billion.

New weapons systems and increased defense capability will continue to be expensive. The figures demonstrate the necessity for the sustained cost reduction effort which Secretary McNamara is carrying on so effectively. A substantial portion of our staff is working on various aspects of a Government-wide cost reduction effort, including manpower and productivity studies, investigation of opportunities for simplifying work, streamlining of organization structures and detailed analyses of budgetary requirements.

I shall turn now to matters which have been of direct concern to this subcommittee—the improvement of defense procurement and related administrative and service activities.

The principal witnesses appearing before this subcommittee for the Department of Defense, the General Services Administration, and the General Accounting Office have described the various actions being taken and some of the evidence that serious problems remain to be solved.

I believe the subcommittee understands that the Bureau of the Budget has played a part in getting some of these actions underway. My statement is directed primarily to some of our current efforts and to our general views concerning the priorities which should govern future efforts.

I shall also comment concerning matters on which the chairman has specifically requested our views, including development of a Federal Supply and Services System, commercial-industrial activities of the Government, and management of ADP systems.

#### SPECIAL EXAMINATIONS BY THE BUREAU OF THE BUDGET OF SELECTED DEFENSE PROCUREMENT AND SUPPLY PROBLEM AREAS

As we examine budget estimates for the Department of Defense, problem areas are identified which require intensive special studies. These studies must be supported by adequate followup to assure that budgetary results are accomplished. This work has been especially productive during the past year.

Following are a few examples of such efforts:

#### EXAMINATION OF TANK AUTOMOTIVE SUPPLIES

Criticisms of inadequate management of tank automotive supplies, as well as of unsatisfactory service and support to activities using these supplies led to assignment of Bureau staff to work with the Office of the Secretary of Defense and the Army to conduct an intensive analysis of these problems.

Special attention was directed to management problems at the Army Tank Automotive Center in Detroit and to related consumer funding problems. Goals have not yet been accomplished but progress to date is striking.



For example, purchases of stock for the center in fiscal year 1964 are \$80 million below the 1962 level but the percentage of requisitions filled on time reached a new high in January 1964. Actual demand from users of these supplies has increased but requisitions from depots in Europe between September 1963, when this phase of the study was completed, and January 1964, were \$63.6 million below the volume for the same period a year ago.

In addition, the stock fund has been reduced; uneconomical rebuild operations have been discontinued; statistical data upon which actions are based have been improved and updated; training programs have been instituted.

#### PROCUREMENT OF TECHNICAL COMPONENTS AND REPAIR PARTS

The Bureau's work in this area consisted of factfinding and analysis at inventory control points, command headquarters, and bases; and development of statements and recommendations concerning problems identified.

Discussions were held with the Secretary of Defense and with responsible officials in the Air Force and Department of Defense. Air Force procurement has been reduced \$1.2 billion, or 60 percent, in this area during the past 6 years, while the quality of supply support has been improved. The Air Force agreed with results of this study and has placed its recommendations into effect, as stated by General Gerrity.

The request in the 1965 budget for DOD-wide technical components (other than those carried in stock funds) is \$900 million below the level actually appropriated for 1962. Stock fund sales during fiscal year 1965 are forecast to be \$848 million higher than sales in 1962 but stock fund purchases will increase only \$185 million. The difference of \$663 million of sales over purchases will be met from stock.

Chairman DOUGLAS. That is a very fine achievement.

#### IMPROVEMENT IN NAVY MATERIEL PROGRAMS

Mr. STAATS. The recent reorganization in the Navy Department involves an expanded role for the Chief of Materiel. The Bureau is working closely with the Navy to assist in development of policies, procedures, and organizations which will be needed. Initial emphasis is being placed on aeronautical materiel but the effort is to be expanded to other categories of materiel.

This effort involves not only headquarters organizations of the Navy, but also supply depots, inventory control points, overhaul and repair facilities, shipyards, air stations, aircraft carriers, and so forth.

#### MANAGEMENT OF STOCK FUNDS

I believe the subcommittee will be interested especially in progress which has been made to refine the criteria for use of stock funds and to improve the management of the funds. As reported to you last year, we participated in developing these criteria which may be summarized as follows:

Items will not be carried in stock funds if they are—  
Primary items (tanks, aircraft, and so forth).

Insurance items (items have no predictable failure rate in normal usage but need is critical if failure occurs).

Directly related to safety of personnel (parachutes, life preservers, and so forth).

Coded for repair at depots (engines, fuel controls, and so forth).

In stages of research and development (new weapons systems, missile components).

Controlled locally at bases which are not otherwise provided with stock fund controls.

Items will be carried in stock fund if none of the conditions listed above apply.

As a result of application of these criteria, a considerable number of items are being withdrawn from Army and Navy stock funds, although the task will not be accomplished until late in 1965.

We continue to support the general principle of the stock fund as a useful tool for managing and controlling supplies. Like any tool, stock funds must be used properly and they are not substitutes for good management.

We continue to find that excessive inventories which have been purchased with appropriated funds are not revealed for corrective action until they have been capitalized and subjected to the analyses which can be applied more conveniently under stock fund systems.

The results have been as follows:

	<i>Millions</i>
Stock fund inventories in 1949.....	\$862. 0
Additional inventories capitalized from 1949 to 1963.....	15, 567. 4
<b>Total.....</b>	<b>16, 429. 4</b>
Inventory in stock funds as of June 30, 1963.....	6, 527. 4
Overall reductions in inventories carried in stock funds.....	9, 902. 0

This table shows you I think fairly dramatically what has happened over the period since 1949.

Chairman DOUGLAS. Mr. Staats, as a matter of record, the great growth of stock funds was primarily the child of Admiral McNeil, was it not, who was a great exponent of stock funds?

Mr. STAATS. I think that is an accurate statement. This period I am talking about is when McNeil was comptroller.

#### IMPROVEMENT IN STOCK FUND OPERATIONS

Chairman DOUGLAS. I want to congratulate you on that. I want to say this was a very heavy battle that we had, too. The General Accounting Office has criticized the stock funds for years and I personally criticized the volume of stock funds which I thought in many cases meant we would have to appropriate the money twice. First to appropriate the money to get it in the stock fund and then appropriate money to get it out of the stock fund.

I must say we had a very hard battle. At one time I thought we had lost out completely because the Defense Department held to this concept of the stock fund very long. I am delighted we made this progress. I had not realized it had been done. I want to congratulate everybody.

#### ROLE OF GAO AND CONGRESSIONAL COMMITTEES

Again I want to say that I think this may indicate that the General Accounting Office under congressional control has a function in

life and possibly congressional committees may have a function in life, too.

Mr. STAATS. I agree on both counts, Mr. Chairman.

#### AGREEMENT ON STOCK FUND CRITERIA

I might say I think the fact that we now have agreement on these criteria is going to help us tremendously in the utilization of this stock fund.

In 1963, just to show you what we did in that 1 year, we decreased the stock fund by \$326 million and the amount in 1964 in our present judgment, will be even larger in total further reduction than 1963.

The next portion of my statement, Mr. Chairman, relates to governmentwide procurement and supply problems. In addition to special studies of defense procurement problems and similar studies in other agencies, the Bureau is concerned with problems which involve relationships between two or more agencies.

An example of this kind of effort is the orderly transfer of supply management responsibility from the Defense Department to the General Services Administration for such common use items as paint and handtools.

As other witnesses have stated, this particular problem has been solved by a working agreement between the two principal agencies. The subcommittee may be interested in a few other examples of such effort by the Bureau.

#### TEST OF EXCESS PROPERTY UTILIZATION

In 1960, the Bureau completed a governmentwide study to determine whether Federal agencies were using available excess property in lieu of new procurement.

A sample of items which had been available from excess was checked with agencies' procurement actions. The condition found was unsatisfactory and several substantial changes were made; for example, a change in the policy which required reimbursement from agencies receiving excess property.

The volume of excess property being transferred among Federal agencies is substantially higher than when our test was completed, in spite of the fact that the volume of excess property available for transfer has been reduced.

We believe further improvements may be possible. We have launched a new test along lines similar to the 1960 test except that it is somewhat broader in scope and is designed to provide information on (1) whether excess property actually is being used as "the first source of supply," and (2) whether excess property is being transferred in excess of needs.

#### CONSOLIDATED PROCUREMENT OF SUBSISTENCE SUPPLIES

We have been concerned about the dispersion of responsibility for procurement and distribution of nonperishable subsistence items for many years. In 1958, we arranged for the Veterans' Administration to assume overall responsibility for procurement of nonperishable subsistence supplies for all civilian agencies.

Since that decision, the DSA has been established with one of its components being the Defense Subsistence Supply Center. We have asked the Secretary of Defense to conduct a study to determine whether responsibility for nonperishable subsistence procurement and distribution for all Federal agencies should be consolidated in DSA's Subsistence Supply Center. As other witnesses have stated, our request was accepted and the study is underway.

A recent development involves the possible integration of perishable subsistence supply support in major metropolitan areas. As set forth below, the Government spends more money for perishable subsistence than it does for nonperishable items; however, it is not feasible to stock perishable items in depots.

Consequently, they are purchased locally by many Federal hospitals and other users. We believe it may be much less costly for the Government to purchase these perishable items on some kind of consolidated basis which will offer possibilities of lower prices, transportation savings, and reduced administrative expenses.

At our request, the Defense Subsistence Supply Center is arranging to conduct a test of consolidated procurement and distribution of perishable subsistence items in two major metropolitan areas. One area will be in Chicago, the location of the Defense Subsistence Supply Center, and the other area to be tested probably will be in Washington, D.C. The savings cannot be determined at this time but the potential may be judged from the following overall volume statistics:

	<i>Annual volume (in millions)</i>
<b>Nonperishable subsistence:</b>	
DOD-----	\$330
VA-----	12
GSA and others-----	4
Total-----	<u>346</u>
<b>Perishable subsistence:</b>	
DOD-----	500
VA-----	35
Others-----	15
Total-----	<u>540</u>
Total subsistence within scope of study-----	<u>886</u>

<sup>1</sup> Estimated.

Chairman DOUGLAS. These are for the two areas alone?

Mr. STAATS. No, sir; this is for the total. I do not have the figure for these two particular areas. I would try to get an estimate for you if you wish.

#### CIVILIAN PORTION OF THE FEDERAL CATALOG

During the past year we have worked closely with cataloging specialists in GSA and in the principal civilian agencies in an effort to develop a realistic schedule for completion of the catalog. We are convinced that further efforts to improve supply management will depend largely on whether the cataloging task can be completed promptly.

It is extremely difficult to determine the feasibility of proposals for consolidation of supply responsibility, standardization of similar

or identical items, and so forth, when many agencies are not using the Federal catalog for a portion of their supplies.

There is a better understanding among all agencies of the problems and procedures to be followed and the GSA has developed a plan for completing the civilian portion of the catalog during fiscal year 1965. We believe this goal is attainable.

The examples described above will indicate the general nature of the Bureau's current effort to improve procurement and supply management in the Government. I shall now turn to other matters on which the subcommittee has requested specific comments.

These include (1) development of a Federal supply and services system, (2) commercial-industrial activities of the Government, and (3) management of ADP systems and purchase versus leasing of ADP equipment.

#### A FEDERAL SUPPLY AND SERVICES SYSTEM

Since the subcommittee has heard testimony concerning the joint efforts of the GSA and DSA for further integration of their supply systems, I shall confine my comments to the work being done with the civilian agencies. Most of the civilian agencies have been integrated fully into GSA's programs. They are covered by GSA's regulations governing procurement and supply matters, utilization of excess property, and so forth, and many of them are wholly dependent upon GSA for their supply support.

A few agencies have continued to maintain their own supply systems, however, including the Veterans' Administration, the Federal Aviation Agency, the NASA, and the Post Office Department. We have been concerned especially with the kinds of common-use supplies which can be more economically managed on a centralized basis.

We believe the key to further progress in this area lies in the completion of the Federal catalog system for the civilian agencies. We have worked with GSA and with all of the other principal agencies concerned and a plan has been developed by the GSA for completion of the catalog during the next fiscal year. This goal is difficult but attainable. We are proceeding on the basis that the job will be done on schedule. (See p. 182.)

The Federal Aviation Agency can rely on GSA for common-use items since it has been engaged in a special cataloging project and has been in the process of converting its system to use the Federal numbers.

Efforts involving the Veterans' Administration have already been described in connection with the planned tests of consolidated management of subsistence.

We have inspected the principal supply facility for the NASA at Cape Kennedy and have continued to be in touch with the NASA and the Air Force in their efforts to develop a joint agreement.

Such an agreement has been formalized recently under which the Air Force will assume overall responsibility for supplying common-use items at Cape Kennedy both to its own components and to those of NASA.

The agreement provides that the NASA will assume overall responsibility for supplying common items for its own needs and for those of other agencies on Merritt Island, adjacent to Cape Kennedy.

## TIMETABLE ON FEDERAL SUPPLY ACTIONS

Mr. Chairman, if I may say here in response to your questions of Mr. Boutin earlier on our timetable, this we see very closely tied to the completion of the Federal catalog, but it is our hope that we will be able to reflect decisions in the 1966 budget which will be submitted to the Congress next January on all of these areas.

## AGREEMENTS TO BE REFLECTED IN 1966 BUDGET

Chairman DOUGLAS. You are expecting agreements to be made by the first of next January?

Mr. STAATS. To be reflected in the 1966 budget. Some of these we may put into effect earlier than that.

Chairman DOUGLAS. I understand. This is the maximum length of time which you are allowing?

Mr. STAATS. That would be correct.

Chairman DOUGLAS. Very good.

The next point is will you be able to crack down on the tardy agencies?

## GREAT DIFFICULTIES NOT ANTICIPATED

Mr. STAATS. I do not anticipate we will have great difficulties. There is always in a case of this kind a judgment that has to be made as between operating requirements of an agency like the Post Office, for example, as against dollars and cents savings which will come about through centralized procurement.

We have not said, and I know this committee has not said, that the dollars and cents savings per se ought to govern in every case. I do not think that has been suggested by anybody. There will be this difference of view, I am sure, that will arise in an operation of a business type such as the Post Office Department. But we are in the process of discussions with them and have had discussions with them only as recently as yesterday. Our hope is that we can come to some balance on these two considerations.

Chairman DOUGLAS. Very good.

## COMMERCIAL-INDUSTRIAL ACTIVITIES

Mr. STAATS. The next portion of my statement relates to the matter which we discussed last year on commercial-industrial activities of the Government.<sup>1</sup>

As stated last year, we do not contemplate a major change in the basic policy which has been in effect during the past 9 years. Essentially, the policy is that the Government will not provide commercial or industrial types of services or products for its own use which can be obtained from private enterprise through ordinary business channels. Exceptions are recognized as necessary or advisable

<sup>1</sup> See p. 229.

in some instances but there is a presumption that private commercial sources can produce most economically the quality and quantity of the service or product required by the Government.

#### POLICY IN BULLETIN 60-2 GENERALLY OK

Although we regard the existing policy statement contained in our Bulletin 60-2 as generally satisfactory, we are preparing a circular to provide more explicit guidelines and more effective procedures. A great deal of drafting work has been completed but the circular has not been issued.

#### COST ELEMENTS—TAXES

One of our problems has been an apparent difference of opinion concerning certain cost elements which should be taken into consideration when deciding whether to rely upon a Government activity or commercial sources.

#### COMPTROLLER GENERAL'S DECISION RE TAXES

For example, our bulletin provides that taxes should be considered as offsets in favor of using private business but decisions of the Comptroller General have been interpreted to preclude consideration of taxes. We are inclined to question whether the Comptroller General intended such an interpretation but we believe it will be necessary to get this point clarified. (See p. 158 et seq.)

#### ADVISORY GROUP ASSISTING

Several other issues have been identified on which we are seeking assistance from a selected group of industrialists, accountants, economists, and public officials. Although the policy is in effect under the existing bulletin, we believe a more up-to-date directive is desirable.

#### ROPEMAKING AT CHARLESTOWN

Chairman DOUGLAS. Mr. Staats, let me ask you a very specific question. Are they still making rope in the Charlestown Navy Yard?

Mr. STAATS. I am afraid I do not know.

Mr. MULLINS. The program on rope was changed somewhat so that now the Government produces only special types of rope which I am told are difficult to obtain in other ways. It is nylon rope and special types of fabricated ropes.

I might anticipate your next question and say that the Government production of chain and wire rope has been discontinued except for a few in two numbers which have been unavailable from other sources.

Chairman DOUGLAS. Does the Government still package spice?

Mr. MULLINS. I do not know.

#### TRYING TO PROVIDE GUIDELINES

Mr. STAATS. Would you like for us to put something in the record on that? What we are trying to do here, Mr. Chairman, is to provide guidelines. This is a very troublesome area for the agen-

cies as to when it is more economical to purchase outside as against production of an item of commercial or industrial type within Government.

We have some very troublesome problems as to what elements of cost should go into consideration in a specific case. I mentioned the item of taxes but we have similar difficult problems on how do you figure depreciation? How do you figure operation and maintenance cost? There are some who would even argue that on the Government side we should consider as an element of cost some return on investment. That is, a profit or in lieu of profit. These are the kinds of things we hope an outside group working with us in Government can help provide more precise guidelines on.

#### TAX LOSS A COST

Congressman Curtis was mentioning earlier in this morning's session the question of taxes—whether or not we were including taxes as a cost on the Government side. Our present bulletin says we should do this. We think this is correct. Certainly the tax loss to the Government is a cost. We feel that this matter also needs some reexamination.<sup>1</sup>

#### INTEREST ON PLANT

Chairman DOUGLAS. Should interest on plant and equipment be included as a cost?

Mr. STAATS. Yes, we think so. I do not believe there is anyone who is questioning that. I think part of the problem, if I understand it correctly, and we have not had a meeting with the General Accounting Office which we hope to have, is that they feel that the lowest end price is the thing that should govern and these other factors should not be taken into account in making a judgment as to whether you produce commercially or produce in-house by Government.

We think this is an important area to be resolved. If it is not resolved, then I think it may well be a matter that the Congress will have to deal with in terms of legislation.

#### LEASE VERSUS PURCHASE OF ADP

Mr. Chairman, the next point of my statement deals with the lease versus purchase of automatic data-processing equipment and the integrated management of automatic data-processing systems.

In view of the subcommittee's interest, I believe it may be helpful to review briefly our program, the actions which have been taken, and the plans for future actions to improve management of the ADP systems in the Government.

In July 1957, we established an interagency organization and developed a program for organized surveys of known problem areas. One of the matters studied was the lease versus purchase of ADP equipment.

It was recognized that leasing could be in the Government's best interest in some cases but that in many instances, it would be less costly over a period of time for the Government to own the equipment. Detailed criteria for determining when to purchase and when to lease were not available, however, except for a few agencies, such as the TVA, in which intensive studies were made proving that their equipment should be owned rather than leased.

<sup>1</sup> See "Report, 1963," p. 52 for text of Bulletin 60-2.



In October 1961, we established criteria for purchasing ADP equipment but, because of budgetary leadtime, the major impact of these policies could not occur until fiscal year 1964.

#### PROGRESS IN FISCAL 1964—SAVINGS

Substantial progress has been made during the current year. As of June 30, 1964, 38 percent of the ADP equipment in place in the Government will be owned. This is more than double the percentage of equipment owned last year. By June 30, 1965, about 46 percent of all ADP equipment in place will be Government-owned. By 1968, the annual savings in equipment rental payments will be \$175 million.

Chairman DOUGLAS. Are those net savings or gross savings? Do those take into account the replacement cost of equipment purchased?

Mr. STAATS. That has been taken into account. These will be net savings, Mr. Chairman.

This is substantially more than the amount cited last year by the Comptroller General. We agree that the Government should purchase ADP systems whenever analysis shows it to be in the Government's interest to do so. We have been proceeding on that basis.

#### INTERAGENCY COMMITTEE ON ADP

The Bureau's ADP program has been designed as a two-pronged effort to foster achievement of the computer's potential and to utilize this type of equipment as economically as possible. With the assistance of the Civil Service Commission and the General Services Administration we have fashioned our program as a community of effort by all executive agencies by creating and utilizing the Interagency Committee on ADP and the ADP Advisory Council.

We can point to some noteworthy accomplishments of which the following are examples:

Chairman DOUGLAS. Before you go on, Mr. Staats, would you be able to give us the names of the agencies which have predominantly followed the policy of purchasing the automatic data-processing equipment? Which ones are doing the purchasing?

Mr. STAATS. Would it be satisfactory if I gave you for 1963 and 1964 the portion of leased versus purchased?

Chairman DOUGLAS. By agency?

Mr. STAATS. Yes; by agency. I think this will show you clearly where this shift has taken place that I have mentioned.

Chairman DOUGLAS. What are the agencies which are recalcitrant about purchasing equipment? I know it is not polite for you to mention this, but are you having difficulty with any agencies?

Mr. STAATS. I think while we have had some difficulties at one point these have been largely overcome.

Chairman DOUGLAS. Would you submit a statement for the record showing the percentage of equipment purchased and the percentage of equipment leased and the payments for leased equipment by agencies?

Mr. STAATS. For 1963, 1964, and 1965. Would that be satisfactory?

Chairman DOUGLAS. Yes.

Mr. STAATS. Yes, sir.

Chairman DOUGLAS. Thank you.

(The information requested follows:)

Number and percent of computers purchased and leased by agency for fiscal years 1963 through 1965

FISCAL YEAR 1963

Agency	Number of computers	Purchased		Leased		Computer rental payments <i>Thousands</i>
		Number	Per cent	Number	Per cent	
Atomic Energy Commission	142	63	44	79	56	\$10,750
Agriculture	20	7	35	13	65	1,486
Agency for International Development	1	1	100			100
Civil Aeronautics Board	1			1	100	83
Central Intelligence Agency	8	1	13	7	87	1,134
Commerce	30	11	37	19	63	5,904
Civil Service Commission	1			1	100	85
District of Columbia Government	1			1	100	54
Office of the Secretary of Defense	54	7	13	47	87	11,867
Air Force	321	30	9	291	91	54,536
Army	204	41	20	163	80	23,682
Navy	236	54	23	182	77	31,934
Federal Aviation Agency	14	3	21	11	79	5,199
Federal Communications Commission						
Federal Reserve System	1			1	100	169
Federal Trade Commission						
General Services Administration	11	1	9	10	91	988
Health, Education, and Welfare	30	1	3	29	97	6,057
Housing and Home Finance Agency	3			3	100	550
Interior	11	4	36	7	64	368
Interstate Commerce Commission	1			1	100	53
Justice	3			3	100	335
Labor	3			3	100	281
National Aeronautics and Space Administration	153	38	25	115	75	25,202
National Science Foundation	3	1	33	2	67	98
Office of Emergency Planning	1	1	100			
Post Office	12			12	100	675
Railroad Retirement Board	2			2	100	512
Small Business Administration	1			1	100	85
State	1			1	100	76
Treasury	41	10	24	31	76	5,246
Tennessee Valley Authority	2	1	50	1	50	32
Veterans' Administration	14	7	50	7	50	647
Total	1,326	282	21	1,044	79	188,248

FISCAL YEAR 1964

Atomic Energy Commission	170	105	62	65	38	\$8,196
Agriculture	17	10	59	7	41	790
Agency for International Development	1	1	100			32
Civil Aeronautics Board	1			1	100	89
Central Intelligence Agency	9	1	11	8	89	2,440
Commerce	39	14	36	25	64	8,078
Civil Service Commission	1			1	100	85
District of Columbia Government	2			2	100	85
Office of the Secretary of Defense	60	20	33	40	67	15,237
Air Force	554	108	19	446	81	58,967
Army	256	146	57	110	43	23,004
Navy	278	139	50	139	50	29,126
Federal Aviation Agency	16	11	69	5	31	1,450
Federal Communications Commission	1	1	100			
Federal Reserve System	1			1	100	200
Federal Trade Commission	1			1	100	35
General Services Administration	11	1	9	10	91	1,538
Health, Education, and Welfare	33	3	9	30	91	6,091
Housing and Home Finance Agency	3	3	100			225
Interior	12	3	25	9	75	647
Interstate Commerce Commission	1			1	100	70
Justice	3			3	100	347
Labor	4			4	100	535
National Aeronautics and Space Administration	209	76	36	133	64	39,202
National Science Foundation	5	1	20	4	80	489
Office of Emergency Planning	3	3	100			89
Post Office	12	2	17	10	83	909
Railroad Retirement Board	2	2	100			92
Small Business Administration	1			1	100	85
State	1			1	100	99
Treasury	44	19	43	25	57	5,462
Tennessee Valley Authority	2	1	50	1	50	32
Veterans' Administration	14	11	79	3	21	193
Total	1,767	681	39	1,086	61	203,969

*Number and percent of computers purchased and leased by agency for fiscal years  
1963 through 1965—Continued*

FISCAL YEAR 1965

Agency	Number of computers	Purchased		Leased		Compute rental payments <i>Thousands</i>
		Number	Percent	Number	Percent	
Atomic Energy Commission.....	181	126	70	55	30	\$8,856
Agriculture.....	19	11	58	8	42	673
Agency for International Development.....	1	1	100			32
Civil Aeronautics Board.....	1			1	100	102
Central Intelligence Agency.....	11	1	9	10	91	2,835
Commerce.....	44	22	50	22	50	9,426
Civil Service Commission.....	1	1	100			
Canal Zone Government.....	1			1	100	36
District of Columbia Government.....	3			3	100	182
Office of the Secretary of Defense.....	65	22	34	43	66	20,652
Air Force.....	612	122	20	490	80	72,923
Army.....	306	170	56	136	44	21,215
Navy.....	291	160	55	131	45	24,848
Federal Aviation Agency.....	16	11	69	5	31	1,532
Federal Communications Commission.....	1	1	100			
Federal Home Loan Bank Board.....	1			1	100	109
Federal Power Commission.....	1			1	100	146
Federal Reserve System.....	1			1	100	250
Federal Trade Commission.....	1	1	100			12
General Services Administration.....	11	1	9	10	91	1,979
Health, Education, and Welfare.....	38	5	13	33	87	5,899
Housing and Home Finance Agency.....	3	3	100			
Interior.....	15	7	47	8	53	605
Interstate Commerce Commission.....	1			1	100	70
Justice.....	3			3	100	360
Labor.....	4			4	100	626
National Aeronautics and Space Administration.....	224	158	71	66	29	29,236
National Service Foundation.....	6	2	33	4	67	992
Office of Emergency Planning.....	3	3	100			
Post Office.....	12	2	17	10	83	870
Railroad Retirement Board.....	2	2	100			
Small Business Administration.....	1			1	100	158
Security Exchange Commission.....	1			1	100	65
State.....	1			1	100	140
Treasury.....	50	48	96	2	4	921
Tennessee Valley Authority.....	2	1	50	1	50	33
Veterans' Administration.....	13	13	100			97
<b>Total.....</b>	<b>1,947</b>	<b>894</b>	<b>46</b>	<b>1,053</b>	<b>54</b>	<b>205,880</b>

OBSOLESCENCE OF EQUIPMENT

Mr. STAATS. This problem, I might say, is complicated by many factors such as obsolescence and the new technology which comes into being with new equipment. Manufacturers are competing with each other, as you know, all the time to try to improve their product to attract the Government work.

So the decision as to purchase versus lease again runs into the question of what obsolescence are you going to have on a piece of equipment.

We have developed new standards which have been accepted by all the agencies with respect to the time factor that is involved in the criteria as to the economics of purchase versus lease.

SHARING EQUIPMENT

On the sharing of equipment, also referred to earlier in this hearing, the Bureau assumed leadership of an experimental ADP equipment-sharing plan for Federal activities in and near Philadelphia. This was a 1-year test, involving 45 field offices of 12 agencies and the Philadelphia Federal Executive Board.

The test was considered successful and similar arrangements are to be extended to other areas in the country. The GSA will assume responsibility for these additional applications of sharing and has chosen Denver as the site of the next sharing exchange.

A sharing arrangement also has been established for the Washington area at the National Bureau of Standards. Statistics on sharing are being compiled as the transactions take place and, we believe, will indicate substantial savings.

#### EXTENDED UTILIZATION OF LEASED ADP EQUIPMENT

Regulations and procedures have been developed recently which are designed to insure that leased ADP equipment in place in an executive agency and which is or will be excess to that agency's requirements will be purchased and transferred to another executive agency if it is determined to be economically feasible and appropriate to do so.

We believe results will be worthwhile but the reduction in the proportion of leased to owned equipment will reduce the number of possible transactions of this kind.

#### OTHER FEATURES OF THE BUREAU'S PROGRAM

Other activities include arrangements for sharing of information concerning ADP management on a Government-wide basis and preparation of guidelines for ADP management.

Reference was made here to the overall Government-wide study which was undertaken last year, which is making excellent progress. We are planning to have on June 30 of this year a comprehensive report for the first time of the Government's interest in ADP not only from the point of view of the costs and benefits, but also from the point of view of what our future policies should be with respect to ADP equipment, such as investment in research and technology and similar problems.

#### EXPENDITURES FOR LEASED EQUIPMENT

Chairman DOUGLAS. Have you been able to make an estimate as to the approximate amounts which we now spend for leased equipment each year for automatic data processing?

Mr. STAATS. Yes. I am not sure I have those figures with me, Mr. Chairman, but we will be glad to supply them. We do have those figures.

(The information furnished follows:)

#### RENTALS PAID ON ELECTRONIC DATA-PROCESSING EQUIPMENT

The number of electronic computers in the Government will rise from 1,326 on June 30, 1963, to 1,954 on June 30, 1965, an increase of 47.4 percent. For the same period, however, as the following table indicates, payments of computer rentals will rise only \$17.6, or 9.3 percent.

#### *Rentals paid, fiscal year 1963-65*

Fiscal year 1963 (actual).....	\$188, 248, 000
Fiscal year 1964 (estimated).....	203, 969, 000
Fiscal year 1965 (estimated).....	205, 880, 000

ONE HUNDRED AND SEVENTY-FIVE MILLION DOLLARS NET SAVINGS  
AS OF 1968

Chairman DOUGLAS. You said that 38 percent of the equipment was now owned rather than leased and you estimated the net savings at \$175 million.

Mr. STAATS. That will be as of 1968 when this has been shifted over.

Chairman DOUGLAS. Will those be cumulative savings and not annual?

Mr. STAATS. Yes. On an annual basis by 1968.

Chairman DOUGLAS. Will it be on an annual basis?

Mr. STAATS. Yes. We will achieve that much on an annual basis on that date.

Chairman DOUGLAS. Not cumulative?

Mr. STAATS. No, sir, on an annual basis.

Chairman DOUGLAS. That indicates, to use a slang expression, "there's gold in them there hills."

Mr. STAATS. Yes, very substantial.

PENDING LEGISLATION

Finally, Mr. Chairman, I would like to refer to the legislation which is pending in the Congress and which has passed the House which was referred to by Mr. Boutin this morning.

We have been working closely with the sponsors of that legislation on the House side in terms of developing our report and our views to the Senate Committee on Government Operations which has jurisdiction on this matter. I am glad to report to you that we have, I think, agreement on amendments to the House bill which would be satisfactory to the executive branch, and our hope is that this bill can be enacted at an early date. We are not holding up any of our program depending on it. We feel we are moving ahead. I think you have introduced legislation also on the Senate side which has been referred to that committee.

I simply want to note here today that I think we have agreement on changes which will be satisfactory to the sponsors of the bill on the House side which would make the bill acceptable and useful to the executive branch.

Chairman DOUGLAS. Has the Government Operations Committee set a date for a hearing?

Mr. STAATS. I believe they have not.

Chairman DOUGLAS. Does that finish your statement?

Mr. STAATS. That finishes my statement, Mr. Chairman.

Chairman DOUGLAS. I want to thank you very much. You have answered most of the questions which I have had in my mind. Congressman Curtis left some questions which he requested Mr. Ward to read. I must ask to be excused because I have a 12:45 engagement. I want to thank you for not only your testimony but the fine work which you and the Bureau have been doing.

We will meet this afternoon at 2:30 when Mr. Perry Shoemaker will be the leadoff witness. I hope I may be excused.

Mr. STAATS. Thank you, Mr. Chairman.

Mr. WARD. These are short questions and you do not need to answer them now. We will put them in the record and then when you get the transcript you may give the answers at that time.

(1) You advised us last year that you had a new bulletin, 60-2. Is this now available? What are the points that are holding it back and when may we expect it?

(The answer, subsequently supplied, follows:)<sup>1</sup>

There is an apparent misunderstanding since we did not advise last year that we had a new Bulletin No. 60-2. We have recognized that some of the guidelines for applying the policy should be clarified. We are preparing a circular to replace the bulletin primarily to provide more explicit guidelines and more effective procedures. A great deal of the drafting work has been completed but the circular is not ready for issuance as yet.

Mr. WARD. (2) As I recall, commissaries and PX's are not included in the present 60-2 on the theory that they are operated by nonappropriated funds.

(3) In view of the Comptroller General's recent report on commissaries, I wonder if a good part of the cost is not borne by appropriated funds?

(4) Has the Bureau ever made a detailed study of the commissaries?

(The answer, subsequently supplied, follows:)

It is true that commissaries and PX's were not included under Bulletin 60-2 but they were not excluded on the theory that they are operated by nonappropriated funds. Bulletin 60-2 is concerned with commercial-industrial activities which provide products and services for the Government's own use. Commissaries and PX's do not fall within the scope of the bulletin because they do not provide products or services for the Government's own use. This limitation in scope is stated in section 2 of the bulletin, which is quoted below:

"\* \* \* 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."

The Bureau has made several studies of commissary operations during the past decade, and we would estimate that at least 85 percent of operating costs are borne by appropriated funds. The only costs not so financed are those required to be included in the gross sales price by section 513 of the Department of Defense Appropriation Act, 1964. Currently, a surcharge varying between 2 and 3 percent, depending upon the military service and the commissary location, is added to the basic sales price of the commissary merchandise to comply with this provision of law.

In 1960, Bureau staff made a study of locations of installations which operated commissaries and the basis upon which the Secretary of Defense certified these commissaries. At that time there were 271 commissaries whose locations may be summarized as follows:

Within or abutting cities whose 1950 population exceeded 50,000.....	39
Others in metropolitan areas, as listed in the Budget Bureau's "Standard Metropolitan Statistical Areas".....	96
In other areas.....	136
Total.....	271

These commissaries were certified by the Secretary of Defense because available commercial facilities failed to meet established criteria in the following number of cases:

<sup>1</sup> NOTE.—The misunderstanding arose from Mr. Staats' testimony, 1-year prior, on Apr. 1, 1963, "We have in process now, and have had for some time, a more detailed analysis of this bulletin looking forward to the possibility of more precise definitions which could be useful to the agencies in drawing a judgment as to whether the matter should be performed in-house, within the government itself, or by contract. See "Hearings, 1963," p. 207. See also p. 243, this hearing.

## Reasonable prices :

Prices only.....	29
Prices and reasonable distance.....	231
Price and adequate facility.....	2
Price, reasonable distance, and adequate facility.....	16
<b>Total</b> .....	<b>268</b>
Reasonable distance only.....	3
<b>Total</b> .....	<b>271</b>

Mr. WARD. (5) Do you think the present law; that is, the DOD appropriation rider, is being met? We would like to have an opinion from your counsel as to whether or not the intent of the language on the commissaries is being met.

Mr. STAATS. That is our counsel?

Mr. WARD. Yes.

Mr. STAATS. Yes.

(The answer, subsequently supplied, follows:)

Existing law, as presently set forth in section 513 of the Department of Defense Appropriation Act, 1964, precludes the use of appropriations contained in that act for 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 military and civilian employees of the Department of Defense. We understand that the necessary certifications have been made and that the formal requirements of the law have been met. The GAO report does not suggest otherwise.

A provision like that in the current appropriation act has been included in every Department of Defense appropriation act since that for the fiscal year 1954. There are no guidelines established to aid in determining what was to be considered as "reasonable" or "satisfactory," and the provision vests broad discretionary authority in the Secretary of Defense to make the required certifications. The GAO report, however, refers to statements of Members and committees of the Congress going back as far as 1949 which seem to indicate a congressional intent that the operation of commissaries within the continental United States be sharply curtailed.

The GAO report suggests that, while the technical requirements of the statute are being met, the spirit of the provision is being evaded because the criteria used as a basis for the Secretary's certifications are such as to preclude any meaningful curtailment of commissary operations.

If the background material cited in the GAO report may be accepted as indicating the intent of the Congress in enacting the provision, there may be some doubt as to whether the application of the provision by the Department of Defense complies with the congressional intent. On the other hand, the continuous reenactment of the provision for 11 consecutive fiscal years, without substantial change in the practices regarding the operation of commissaries and without any indication of dissatisfaction by the Committees on Appropriations or the Committees on Armed Services, seems to suggest that the Congress during this period may have recognized and acquiesced in the views of the Department of Defense that—so long as the appropriate certifications are made by the Secretary of Defense under criteria such as those which the Secretary has established—commissaries constitute one of the fringe benefits intended to be provided for certain personnel of the Defense Establishment.

Mr. WARD. Then Congressman Curtis had two other questions.

(6) Does the Bureau of the Budget concur in the reduction of 200 people through the transfer of handtools and paint to GSA?

(7) Then related to that, is there danger that GSA may be cutting too many people and will have difficulty meeting their commitments? That is with respect to the handtools and paint.

(The answer, subsequently supplied, follows:)

The Bureau of the Budget concurred in the estimates of manpower requirements upon which the projected savings of 200 man-years was based. The

same general procedures were used by the GSA in developing these estimates as have been used in planning for other increases in GSA's responsibilities for managing supplies. It should be recognized, however, that these transfers were formalized very recently and that the actual transfers of manpower from the DOD to GSA have not been completed. A portion of the workload is being handled by people who are on the payroll of the DOD. Until the transfer has been fully accomplished and has been in operation for a reasonable period, it will not be possible to determine with absolute certainty whether the estimates of manpower requirements were too high or too low. We shall evaluate the plans again when budget estimates are transmitted to us next fall, beginning in September.

Mr. WARD. Thank you very much.

Mr. STAATS. Thank you.

(Whereupon, at 12:50 p.m., the joint committee recessed, to reconvene at 2:30 p.m. of the same day.)

Chairman DOUGLAS. The subcommittee will come to order.

This movement to introduce greater efficiency and economy in the procurement practice both of the military and the civilian agencies has really depended upon the cooperation of a number of specific groups. I am very frank to say that those of us in the legislative branch who have worked on this, and in the administrative branch who have tried to cooperate, would not have been able to have made great headway without the cooperation, both active and advisory, of strong citizen groups of which the Hoover Commission has been by far the prominent force, both in highlighting where the wastes have been, what corrective measures should be adopted, and then marshaling public support in behalf of the improved methods. I want to pay public tribute to former President Hoover and his staff, and also to those who have been continuing the work. The Chairman of that Committee is with us this afternoon, Mr. Perry Shoemaker. We have had the services here in Washington of Mr. Frank Upman, Jr., who has been a tower of strength to us, and we also have with us this afternoon Dr. Theodore Klumpp, who has specialized on medical services. I regard Mr. Shoemaker as one of the finest citizens in the Nation. We are very happy to have him testify once again this afternoon with his associates.

**STATEMENT OF PERRY M. SHOEMAKER, CHAIRMAN OF THE COMMITTEE OF HOOVER COMMISSION TASK FORCE MEMBERS; ACCOMPANIED BY THEODORE G. KLUMPP, FORMER CHAIRMAN, HOOVER COMMISSION TASK FORCE ON MEDICAL SERVICES; AND FRANK UPMAN, JR., EXECUTIVE SECRETARY OF THE COMMITTEE OF HOOVER COMMISSION TASK FORCE MEMBERS**

Mr. SHOEMAKER. Mr. Chairman, your opening remarks were very gracious. We appreciate them.

The Committee of Hoover Commission Task Force Members, of which I am Chairman, appreciates the invitation of Chairman Douglas to testify before the Joint Economic Committee today in this further hearing on "The Impact of Military and Related Civilian Supply and Service Activities on the Economy."

I am accompanied by Dr. Theodore G. Klumpp, President of the Winthrop Laboratories. Dr. Klumpp is a member of our Committee and was Chairman of the Second Hoover Commission Task Force on Medical Services. I am also accompanied by Mr. Frank Upman, Jr.,



Executive Secretary of the Committee and former Executive Director of the Task Force on Business Organization of the Department of Defense.

The Chairman of both the First and Second Commissions on "Organization of the Executive Branch of the Government" was the Honorable Herbert Hoover. Mr. Hoover is Honorary Chairman of our Committee. With the permission of Chairman Douglas I would like to read into the record Mr. Hoover's letter of March 31, 1964, concerning this hearing:

THE WALDORF-ASTORIA TOWERS,  
New York, N.Y., March 31, 1964.

HON. PAUL H. DOUGLAS,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR DOUGLAS: It is gratifying to me that the Joint Economic Committee continues to explore the recommendations of the Commission on Organization of the Executive Branch of the Government, and has invited Mr. Shoemaker to testify on April 21.

The remaining unimplemented reports of the Commission continue to represent opportunities in great number for substantial economies and more efficient operation in our conduct of Government.

Secretary McNamara has advised me of his approval of a number of recommendations made by the Commission.

I will be gratified if you will express to the members of the committee my great commendation for their interest in these further areas of public service and opportunity.

Yours faithfully,

HERBERT HOOVER.

As I am sure you know, the Committee of Hoover Commission Task Force Members was formed at the request of Mr. Hoover for the express purpose of aiding the administration and the Congress in the interpretation, understanding, and implementation of the recommendations of the Second Hoover Commission. Both through our Committee and otherwise, Mr. Hoover has followed in great detail the progress which has been made, and has been greatly encouraged by the responsible interest of the Joint Economic Committee in much of the subject matter which the Commission has studied.

#### DOD PROPERTY HOLDINGS OF \$171 BILLION

Of particular interest to the Joint Economic Committee has been the economic aspects of military procurement and supply. This is exceedingly appropriate. The Department of Defense has real and personal property holdings at the end of the fiscal year 1963 or more than \$171 billion. Its expenditures for military functions are 8½ percent of our gross national product. Its military and civilian employees in the United States alone, as of June 30, 1963, numbered 2,639,000, with a payroll, including allowances, of more than \$12¾ billion.

#### PROCUREMENTS OF \$28.1 BILLION

Its military procurement amounted to \$28.1 billion in the fiscal year 1963. Its supply system inventory as of June 30, 1963, was \$39,684 million, a massive figure, but more than \$6.9 billion, or 15 percent less than 5 years earlier. On the other hand, total real and personal property holdings of the Department of Defense increased in the same period by \$22 billion, or 12 percent.

## HOOVER COMMISSION EMPHASIS ON BUSINESS ORGANIZATION

It was in recognition of the increasing economic impact of the Department of Defense, beginning with Korea, that resulted in the Second Hoover Commission placing the emphasis it did upon the business organization of the Department and the opportunities for improved control in management of the Department's responsibilities. The existence of the Second Hoover Commission Reports on Business Organization in the Department of Defense, on surplus property, on real property management, on depot utilization, on research and development, on business enterprises, and on transportation have been both stimulating and helpful to the effective cost reduction program which Secretary McNamara has been carrying out with such success.

Some 85 percent of the recommendations of the Second Hoover Commission directly affecting logistics and installations in the Department of Defense have been or are being implemented in whole or in part. I know of no parallel in Government to an organization making such effective use of material which was prepared for no other purpose than improved management. I would not wish this comment to be construed as detracting from the great credit in this general field which properly belongs to, and has emanated from, the work of the Joint Economic Committee, the work of the General Accounting Office, the work of the Bureau of the Budget and the particularly well done self-analysis which has been and is going on within the Department of Defense itself.

## DSA SUCCESSES

The accomplishments of the Defense Supply Agency have been impressive. In the short period of well under 3 years it has won acceptance from the Congress and, perhaps more important, from the services themselves in its management (including procurement, storage, and distribution) of more than one-third of the items in the supply system of the Department of Defense. Its work in consolidating depots, in streamlining distribution, in perfecting the Federal catalog system, in carrying out a steady program of standardization, and in perfecting a workable and efficient control system for surplus disposal are but some of the fields in which this organization has already made such commendable progress.

## MUCH TO BE DONE

Yet I am sure that both Assistant Secretary Morris, who has so ably been carrying out the responsibilities of the Department with respect to installations and logistics, and the top management of the Defense Supply Agency, would agree that a great deal remains to be done. Certainly many more of the nearly two-thirds of supply items remaining in the military supply systems can be brought under the single management of the Defense Supply Agency.

## COMMON CIVILIAN ITEMS SHOULD GO TO GSA

We also suggest that additional items, which are common to the civilian agencies as well as the Department of Defense, can be brought

under General Services Administration procurement. Paint and handtools are examples of where this has been done with further saving accruing to the Government as a result.

In suggesting this, we are not forgetting the General Services Administration is now buying much more for the Defense Department than ever before. However, to the extent that this can be increased it will make possible the Defense Supply Agency concentrating on items which are common just to the military—thus, further relieving military personnel for other essential military assignments.

#### GSA MAKING PROGRESS

I might interject, Mr. Chairman, that in the testimony of Mr. Boutin this morning, which I thought was most encouraging, as a picture of progress, the General Services Administration, as you know so well, was the result of a recommendation of the first Hoover Commission. It was to be a housekeeping agency of Government. For some years it did not get off the ground. But certainly in the last few years it has been making outstanding progress toward the place in our Government that was envisioned for it initially.

#### GOVERNMENT SUPPLY SYSTEM

I think we can all take great encouragement from the picture of their genuine interest in making themselves a supply system for Government. There are great savings that are potentially in that field.

#### CIVILIAN-TYPE OPERATIONS IN A CIVILIAN AGENCY

I think General Services has more progress to make in connection with transportation. Certainly in surplus disposal they have not made the progress we would all have liked to have seen. But the important thing to me is that here is a civilian concept of doing the thing that civilians can do. The more of that that we can take out of the Military Establishment and put in civilian hands, where there is a continuity of management, that I believe is traveling in the right direction.

Chairman DOUGLAS. Thank you.

#### NEED TO IMPROVE IN STANDARDIZATION PROGRAM

Mr. SHOEMAKER. It is my observation, confirmed by the informative testimony of Comptroller General Campbell last week, that only a start has been made in achieving the potentialities of standardization, the findings of which must be backed by clear-cut authority and responsibility for decision.

#### CONCERNED BY COMPTROLLER GENERAL'S TESTIMONY

If I may interject again, Mr. Chairman, I have been greatly concerned about the testimony given by the Comptroller General in the hearing last week. I think that it merits the very careful consideration of your committee. Because, essentially the Comptroller General said in his discussion of standardization that we are not making the progress that we should and we are not making the progress which

some of us have been led to believe. If that is so, then certainly that is an area where the committee can well afford, in our judgment, to take decisive action toward encouraging a greater activity and particularly, greater results. Because there are great savings in this field, as we all know.

#### M'CORMACK-CURTIS AMENDMENT—COMMON SERVICES

Up to this time the Department of Defense has made more progress in common supply than it has in common services. As was pointed out by the chairman of the Joint Economic Committee in the 1963 hearings, the McCormack-Curtis amendment gave the Secretary full authority to combine common service activities. The July 1963 report of the Subcommittee on Defense Procurement to the Joint Economic Committee lists, on page 10, some 44 opportunities in this field. It is conceivable that the opportunities for combination involve management problems of sufficient diversity to justify the Defense Supply Agency being complemented by a Defense Service Agency.

#### GOVERNMENT-WIDE FUNCTIONS

The possibilities for coordination and combination of service functions go beyond the Department of Defense. As we pointed out in the hearing last year, there is doubtful justification for 14 different governmental agencies, of which but four are in the Department of Defense, carrying out weather research. The commonality of hospitals within the Department of Defense has been well established, but it goes further to include the Veterans' Administration and our Public Health Service hospitals.<sup>1</sup>

I would commend to this committee, to the Bureau of the Budget and to the Department of Defense aggressive consideration of the opportunities which lie in the common service category.

#### COMMISSARIES AND PX'S

I have previously testified to this committee concerning the problem in the common service area of military commissaries and PX's. This directly involves competition with private enterprise to the extent that such military enterprises are in domestic locations in direct competition with available privately operated sales outlets. The last data from the Department of Defense which I have seen shows annual commissaries and PX sales in the United States in the amount of \$1,438 million. Knowing that the Joint Economic Committee has received a special report from the General Accounting Office on this subject, I will not go further at this point than again reiterate the principle I urged last year; namely, that if the justification of these activities, in other than remote areas, is in fact one of fringe benefits to our military personnel, then that is a problem we should meet head on as a pay problem and not through the channel of continuing competition with nearby taxpaying commercial enterprises.

#### COMMERCIAL-INDUSTRIAL ACTIVITIES

My comments with respect to commissaries and PX's open up the much broader question of commercial-industrial activities governmentwide.

<sup>1</sup> See Budget Bureau reports (app. 5, pp. 367 et seq.).

## PUBLIC LAW 108, 83D CONGRESS—TEST OF ESSENTIALITY

The committee will recall that Public Law 108, 83d Congress, established the Second Hoover Commission and specifically charged it with the responsibility of recommending methods for eliminating nonessential services, functions and activities which are competitive with private enterprise.

If such activities of the Federal Government do not fairly meet the test of essentiality, and the test of economic justification when all costs are included, then we indeed have activities which adversely affect the economy. There are here the potentialities for reducing the cost of government, for broadening the tax base and for stimulating our private economy to greater production.

## TWENTY-TWO RECOMMENDATIONS OF HOOVER COMMISSION

The Second Hoover Commission made 22 recommendations in its Business Enterprises Report relating to commercial-industrial activities of the Federal Government. The Commission found that more than 2,500 business-type facilities that provide goods and services, were operated by the Defense Department and that at a minimum some 1,000 could be eliminated without injury to our national defense or any essential Government function. The Department of Defense alone had an investment back in 1955 of some \$15 billion in commercial-industrial facilities. The Commission stated, and I quote:

One of the major problems before us is the continuance of Government business enterprises after the emergency that engendered them has terminated. Because of vested interests, misleading or incomplete accounts, or other reasons, some of these enterprises have established an astonishing longevity.

These enterprises include shipbuilding and ship repair yards, peacetime transportation in aircraft and seagoing vessels, commissary stores and post exchanges, bakeries, coffee roasting plants, meatcutting plants, laundries, drycleaning plants, tailor shops, clothing factories, dental manufacturers, watch and jewelry repair shops and many others.

The Commission went on to say in its report that—

The continuance of such activities by the Government must be made subject to rigid justification. Occasionally this can be done, but the burden of proof in all instances must be on the Government. Unjustified continuance is a definite injury to the vitality of the whole private enterprise system.

In cold fact the Government is still involved in activities which have counterparts in almost every type of commercial and industrial enterprise found in the economy.

May I briefly summarize the recommendations of the Second Hoover Commission in this important field.

## SHIPBUILDING

Recommendation No. 1 was that the Congress provide for the appointment of a commission to study the effect on the private shipbuilding industry of the construction and repair of naval vessels in Government shipyards. I should point out in connection with this that while Congress did not establish such a commission, Secretary

McNamara established his own analytical group to study naval shipyards and indicated in his testimony to you last week that, in his opinion, curtailments are in order. It would be our hope that the study will give careful consideration to the ability of the private shipbuilding and repair industry to very substantially meet the needs of our Defense Establishment.

#### RESERVE AND INDUSTRIAL FACILITIES

Recommendation No. 2 was based upon an analysis of "military reserve and industrial facilities" and urged that the Department of Defense, with the aid of the General Services Administration and with such assistance as might be necessary from outside experts, review the plants as to their value in the light of their condition, future requirements and possibilities of disposal. I have inadequate information upon which to report to the committee the percentage effect of progress in this area. You will recall that Secretary McNamara testified that, as of December 31, 1963, some 59 plants had been made available for disposal.

#### SCRAP METAL PROCESSING

Recommendation No. 3 concerns scrap metal processing and urged that the Government process scrap only to the extent that private industry cannot perform this operation, and further that Government aluminum sweating operations and scrap baling be discontinued. Considerable progress has been made in these fields, largely under the instigation of the Bureau of the Budget.

#### COMMISSARIES AND PX'S

Recommendations Nos. 4, 5, and 6 had to do with commissaries and PX's, limiting their location to localities where adequate or reasonably convenient services are not available; restricting the usage to military personnel, except in isolated and oversea locations. And I think, Mr. Chairman, that has been one of the problems in some of our domestic commissaries, making the prices cover all costs, that consideration to be given to contracting out the operations; that Congress, through its appropriate committees, study the organizational structure of these enterprises, and other nonappropriated fund instrumentalities, to determine how best to eliminate or minimize litigation, liabilities, and legal expenses; the need for adequate audit powers by the Comptroller General; the desirability of conforming their employee relations to those generally prevalent in Government-related activities; and how best to serve the interests of the Government, the armed services, and employees and the public in the operation of such enterprises.

#### INCREASE OF COMMISSARIES

As the Joint Economic Committee knows, not only has substantially nothing been accomplished in any of these areas, but as indicated in the General Accounting Office report submitted to you last week, commissaries have increased 38 percent in number since 1953 in disregard of statutory limitations in effect.

**BAKERIES, MEATCUTTING PLANTS, CLOTHING PLANTS, ETC.**

Recommendation No. 7 recommended that Government commercial-type activities of the Department of Defense, except in isolated or oversea areas, involving bakeries, meatcutting plants, Army and Marine Corps clothing manufacturing plants, Navy custom tailor shops, laundries, and drycleaning plants, be closed. Substantial progress has been made in this field.

**DENTAL, ORTHOPEDIC, SURGICAL, ETC., FACILITIES**

Recommendation No. 8 would provide that all dental, military orthopedic, pharmaceutical, surgical and medical instrument equipment, and supply facilities, except those needed for training or mobilization reserve, or where justified by locations in remote areas, be discontinued; and further that cross-servicing among Government agencies be used with respect to such medical and dental repair facilities as might be justified. So far as I can ascertain there has been no real progress in these areas.

**REVIEW OF LEGISLATION**

Recommendation No. 9 was that all public laws which require or permit the armed services to engage in business operations which can be performed by private industry be reviewed and amended to permit private business to provide military requirements to a greater extent. This has not been done.

**POSTAL SAVINGS SYSTEM**

Recommendation No. 10 would phase out the Postal Savings System. It has not been touched.

**PARCEL POST RATES**

Recommendation No. 11 would require the Postmaster General to seek increases in rates to cover all costs of the parcel post service, including indirect costs. This has been partially approached.

**POSTAL RATES AND SUBSIDIES**

Chairman DOUGLAS. Mr. Shoemaker, it is true that the rates on parcel post do not currently meet the specific costs attached to parcel post but the main cause for the postal deficit lies in class 2, newspapers and magazines, and class 3, the unsealed letters. This is where the big deficits occur. Some of us have tried to increase those rates so that the deficit could be largely removed. We have met with an almost solid front of publishers, including magazine publishers, who in their editorials, denounce Government subsidies but who themselves are the recipients of some of the largest subsidies being paid. We also met with great opposition from many printing establishments which mail out the third-class, unsealed letters, and which, incidentally in many cases, are concerned with the second class as subscription devices. We had no support—I think I can say this—no support from the business community to increase these second- and third-class rates.

I notice that you restrict your recommendation to class 4. But may I ask would you favor increases in class 2 and class 3?

Mr. SHOEMAKER. I can be very unequivocal on that. I am familiar with the work you have done in this field. There is no difference in principle between class 4 and class 3 or class 2 from the standpoint of its standing on its own feet and being self-supporting.

Chairman DOUGLAS. But it is such a hard battle to do this. The House passed a bill 2 years ago which largely rectified these discrepancies. When it came over to the Senate this was changed in committee.

I think it is true that as of today receipts in class 2 meet approximately 28 percent of the attributable costs to newspapers and magazines and in class 3 the rate meets approximately two-thirds and this percentage has not been changed for a good many years.

This is where the deficit really comes from. The deficit is much larger, as a matter of fact, than is commonly believed because they charge off a part of the deficit as to what is termed public service, which is a questionable item. Yet when we try to make a move the very groups which say they are opposed to deficit financing and opposed to subsidies make it almost impossible as a political matter to increase the rates.

Mr. SHOEMAKER. At the time of the Commission study, Mr. Chairman, my recollection is that there had been a reasonably current study on parcel post costs. There was not available current information on class 2 and class 3. There was considerable concern about singling out class 4 for criticism, as it were, without covering the whole gamut of it. The opinion of the Commission was that they wanted facts upon which to base any recommendation that they made and they had them in this case. But the principle, Mr. Chairman, is no different. It is the old story of whose ox is getting gored.

Chairman DOUGLAS. This is one of the most discouraging features of the whole effort. The people are for economy in general but when it affects them they are opposed to it. They are powerful and organized. The general taxpayers are diffused and therefore relatively ineffective.

Mr. SHOEMAKER. I am sure you know that the increases that have been made in parcel post to the extent the Postmaster General has been able to go with it, even that has been bitterly opposed.

Chairman DOUGLAS. That is correct.

Mr. SHOEMAKER. In spite of the fact of not meeting its cost.

#### MAILBAGS AND LOCKS

Recommendation No. 12 would require the Post Office Department to transfer its mailbag and lock manufacturing and repair operations to the Federal Prisons Industries, Inc. This has not been acted upon.

Chairman DOUGLAS. Do you know why this has not been done?

Mr. SHOEMAKER. I am not qualified to tell you why it has not been done. I know shortly after the report was made the Bureau of the Budget pressed the Post Office Department for an answer on it. To my knowledge there never has been an affirmative answer from the Post Office Department.

Chairman DOUGLAS. I am sure Congressman Curtis will agree with me, I hope we keep the spotlight of publicity on this matter. I think



the Federal Director of Prisons, Mr. James Bennett, is one of the finest public servants that this Nation has ever had and is well trained by Sanford Bates, and has continued in that tradition. I hope this issue can be kept alive.

Representative CURTIS. I want to add my commendation and agreement with the chairman not only on this point but the others that have been made. To me it is one of the most distressing things to see these recommendations made and nothing done. If there is something in error about the recommendation, let us find out because we can be in error. But without any attempt to argue the point, there has continued to be disobedience of the laws. I don't know how to cope with this problem of failure to abide by the laws. It is a matter, I guess, of self-discipline. I think the chairman would agree with me that it has gone on under the administration of both parties. It is something that perhaps bureaucracy fosters. I say this in a kindly sense because of a high regard for our civil service people. But this is an example of one of the reasons the term "bureaucracy" has not too fine a connotation. If those who are in charge of these things can't move forward, then they can come back to Congress and explain why. In this particular instance, I think we should immediately find out who it is that is making these mailbags, lock manufacturing, and repairs, and find out where the pressure comes from.

Chairman DOUGLAS. This is a case where we make a recommendation of transfer from private industry to public industry utilizing the spare time of convicts?

Mr. SHOEMAKER. Yes, sir. I think, Mr. Curtis, your observation goes far beyond this point, and it has nothing to do with the party in power. Unless we restore discipline within the framework of our governmental system, it is going to fall.

Representative CURTIS. That is honestly my opinion. I am more worried about that than anything I can think of. I have seen this now for 14 years. It is almost unbelievable to me that where you have these examples so clearly brought out and then continue to have the reports continue to come in with still no obedience, no carrying out, no coming in to explain why it should not be done. Again I say maybe there are reasons. It is just almost a dead silence and it continues to operate this way.

One thing certainly would help, Mr. Chairman: I remember reading in school about the old muckrakers, the newspaper profession that used to get excited about corruption or inefficiencies, and I don't know what has happened to that spirit in this country. We have a lot of people writing newspaper columns and commenting on radio and television, but if they would only lend a hand on some of these clearcut cases—and these are some of them—I think there would be corrections made. Maybe it is because people in this country are apathetic to these things, but I hate to believe that. If that is so, then we have something that is even more serious.

Mr. SHOEMAKER. Our history shows the pendulum swinging from side to side and it has always been an aroused public opinion that has finally brought major change.

Representative CURTIS. That is what ultimately will do it.

## ALASKA RAILWAY

Mr. SHOEMAKER. Recommendation No. 13 was to the effect that the Alaska Railway be operated on a more economic basis; that its rates be raised to a more adequate level; that its hotels and other commercial services be leased or closed; and that the railroad be incorporated and made subject to the Government Corporation Control Act. If this has been done, I am not aware of it.

## HELIUM PRODUCTION

Recommendation No. 14 provided that the Department of the Interior resurvey all possibilities of leasing or selling the helium production facilities. This has not been done.

## OIL FROM SHALE

Recommendation No. 15 recommended that the Bureau of Mines continue the extraction of crude oil from shale only until cost data under its new methods are fully available. This operation is still in effect.

## PARK CONCESSIONS

Recommendation No. 16 provided that the National Park Service attempt to secure the dissolution of the National Parks Concession, Inc., and that the National Park Service lease or sell the facilities now operated by the National Parks Concessions, Inc. This has not been acted upon.

## CONTRACTS FOR SERVICE

Recommendation No. 17 was that other agencies of the Government emulate the General Services Administrator in contracting for some 75 types of service, such as janitorial service, window cleaning, typewriter maintenance, automotive, printing and reproduction, office machine repair and maintenance, and thus support private enterprise and economy in Government. I know of no survey that would develop progress with respect to this recommendation.

## ABACA AND NICKEL PRODUCTION

Recommendation No. 18 was that the Central American abaca program and Cuba Nickel Co. be continued for strategic reasons. The international situation has apparently superseded this recommendation.

Chairman DOUGLAS. You mean by this since Castro is in control of Cuba the nickel facilities have been taken over by the Cuban Government?

Mr. SHOEMAKER. I do indeed, sir.

Chairman DOUGLAS. What about abaca?

Mr. SHOEMAKER. The operation is going on a modified basis, as I understand it, Mr. Chairman, I am not qualified to give you a real informative answer on that.

## EXECUTIVE PRINTING PLANTS

Recommendation No. 19 was that the Bureau of the Budget study the feasibility of a central control of the executive department printing

plants and, taking all items of cost into consideration, make recommendations to the congressional committees as to the printing which could be reduced or eliminated and the printing which might be better placed with private printing or with the Federal Printing Industries, Inc. I am not familiar with any progress that the Bureau of the Budget has made with respect to this recommendation.

Chairman DOUGLAS. Let me say in this connection that I think the Government Printing Office is one of the most efficient printing organizations in the world. It may be that other work could be done better, but it is a continuous marvel to me how well the GPO operates.

Representative CURTIS. I think, though, Mr. Chairman that the point is made that there is a lot of printing that goes on in the various bureaus apart from the Government Printing Office. Am I not correct?

Mr. SHOEMAKER. That is correct.

Representative CURTIS. There is quite a bit. I remember seeing a complete survey.

Mr. SHOEMAKER. It is extensive.

#### CHEMICAL RESEARCH

Recommendation No. 20 was that the Tennessee Valley Authority discontinue all chemical research; that fertilizer research facilities be transferred to the Department of Agriculture; that the Congress instruct the Comptroller General to determine what the real costs of Tennessee Valley Authority fertilizer production are; that thereafter the price of such fertilizer include all costs, direct and indirect, including the loss of taxes which could be obtained from private industry. To the best of my knowledge, no action has been taken with respect to this recommendation.

#### PRIVATE SERVICE CONTRACTS FOR BAKERIES, LAUNDRIES, ETC.

Recommendation No. 21: After analyzing bakeries, laundries, and drycleaning plants in various other civilian agencies, such as Veterans' Administration, Bureau of Indian Affairs, Department of Health, Education, and Welfare, and the Department of Agriculture, the Commission recommended that all unnecessary bakeries, laundries, and drycleaning plants operated by civilian Government agencies, except those in prisons and in isolated localities, be closed and that these services be furnished under contract with private enterprise. So far as I know, there has been no survey to ascertain what progress, if any, has been made with respect to this recommendation.

#### TIME SCHEDULE OF DEACTIVATIONS

Recommendation No. 22 specifically proposed that all of the recommendations involving termination of curtailment of commercial-type activities by governmental departments and agencies be put into an orderly and reasonable time schedule, with advance notice to employees and communities and with help to dismissed employees.

#### BOB PREPARING NEW ORDER

May I say to the Joint Economic Committee that I have reviewed the Business Enterprise Report in this much detail to point out the

magnitude of what can be accomplished in this field. If I am not mistaken, in previous hearings, beginning in 1960, the Bureau of the Budget indicated that it had in the course of preparation a new executive order which would generally enunciate and take into consideration the policies recommended by the Second Hoover Commission. A few weeks ago I was informed that this order has not yet been completed and released.

You will recall that Mr. Staats referred to that this morning, Mr. Chairman. (See p. 221 et seq.)

#### DOD HAS MADE PROGRESS

Nevertheless, I must in fairness state that despite the absence of such an order the Department of Defense has made substantial progress in this field and so testified to you in the 1963 hearings. There has been but limited progress made in the civilian agencies where, as stated in testimony by the Bureau of the Budget in 1960, there remain more than 17,000 business competitive installations.

#### ROLE AND STATUS OF BOB

The old Bureau of the Budget directive, Mr. Chairman, to which Mr. Staats referred this morning, 60-2, in recent years from our observation has been more of a guideline with respect to the installation of new enterprises than it has been for getting rid of the old ones. There is a great deal that can be done in this field. We emphasize the Bureau of the Budget, Mr. Chairman, because we know of no other agency of Government which more properly should have the supervision of what is going on in this field, both with respect to getting rid of such enterprises that properly can be gotten rid of and with respect to establishing new ones.

#### OTHER HOOVER COMMISSION RECOMMENDATIONS

I might interject, for the overall benefit of the Joint Economic Committee, that there are many other partially implemented or wholly unimplemented recommendations of the Second Hoover Commission which offer substantial opportunity for improved economy in Government and more effective administration.

#### HOSPITAL AND MEDICAL SERVICES

With the permission of the Chairman, Dr. Klumpp will follow me to briefly discuss the Commission's report on medical services. Dr. Klumpp was the leader of a distinguished group in this field. Its findings indicated potential savings of \$293 million by sifting out duplication and waste, by closing uneconomical and unneeded hospitals and by better administration of the Veterans' Administration.

#### LENDING AGENCIES

The Commission's report on lending agencies was based upon a study by an eminent group headed by Paul Grady of the accounting firm of Price Waterhouse, New York. The recommendations of this group would return most lending to available and competitive private

institutions and would make the residue of Government lending agencies self-supporting. At the time of its study, and I think it is substantially unchanged today, the task force developed that some 104 different agencies of the Federal Government are in lending operations. The recommendations of the study group would save \$200 million annually, but of greater significance, the return of capital funds to the Treasury, from agencies which the Commission recommended be mutualized, would amount—based on facts of 1955, to more than \$4.5 billion and the return of capital funds to the Treasury from concerns which should be liquidated, was estimated to be just under \$1.7 billion. The effect of the implementation of the Commission's recommendations in this field could have far-reaching results in reducing the national debt and carrying charges thereon.

#### PERSONNEL AND CIVIL SERVICE

The Commission's report on personnel and civil service was based upon a task force study headed by Princeton University's president, Dr. Harold W. Dodds. It urged the overhaul of hiring and firing practices, generally better administration of people and climaxed its report with a proposal for a senior civil service to provide top career men to be selected on the basis of demonstrated competency. The group's recommendations involved the savings of some \$45 million annually. The report is largely unimplemented.

#### REAL PROPERTY MANAGEMENT

The Commission's report on real property management pointed out that some 400,000 properties of the Federal Government were being more or less loosely managed by 27 different agencies; that the property was valued at more than \$40 billion and that 370,000 employees were involved in unstandardized management. The Commission pointed out the opportunity for saving \$185 million annually by the application of sound management principles involving centralized control and centralized responsibility. Within its jurisdiction the Department of Defense has made substantial progress in improved real property management. In spite of strong urging, the Bureau of the Budget has taken little action to bring improved management to the real property of other Government agencies.

#### WATER RESOURCES AND POWER

In the field of water resources and power, the Commission made some 15 recommendations in the areas of reclamation and irrigation, flood control, navigation, and power. The subject was somewhat controversial within the Commission but in general the Commission recommended that Congress adopt a national water policy, setting up some nine principles in connection therewith; that a Water Resources Board be established to supervise national policy; that the staff function of the Bureau of the Budget be strengthened with respect to its competence to evaluate the merits of water development projects presented for appropriations; that the construction of headwater dams in the flood control program of soil conservation service be trans-

ferred to the Corps of Engineers; that all projects declared obsolete or unsound by the Corps of Engineers should be removed from congressional authorization; that Congress authorize a user charge on inland waterways sufficient to cover maintenance and operation, the charge to be fixed by the ICC; that the Congress empower and direct the Federal Power Commission to fix the rates on Government power sales on the basis of eliminating inequities, amortize and pay interest on Federal investment, and provide payments in lieu of taxes to the State and local government equivalent to those the private industries would pay; that the Government cease the building of steam powerplants and provide for the equation of their power loads by interconnections with neighboring power systems; that private utilities be permitted to purchase a fair share of Federal power and that no further building of transmission lines be undertaken until such transmission service can be provided by non-Federal agencies; that several major projects, including the Columbia River Basin system, the Hoover-Parker-Davis Dams Administration, the Central Valley project of California, among others, be incorporated under and made subject to the Government Corporation Control Act; and further that these agencies, as well as the Tennessee Valley Authority, be required to secure the capital for further improvements when authorized by Congress by issuing their own securities to the public without subordinating existing Federal investment.

As is well known to this committee, the recommendations of the Commission in these fields were backed by an eminent group of engineers and engineering educators and lawyers, headed by Adm. Ben Morreel, then chairman of the Jones & Laughlin Steel Corp. They made an exhaustive study which was used as a basis for the Commission recommendations. They are far reaching. Little has been done about them.

#### CURRENT DEVELOPMENTS

I might add, Mr. Chairman, that there are two current developments relating to the Commission's studies and recommendations in the power field which have the potentialities for tremendous economic, as well as social impact. The first has to do with the Tennessee Valley Authority. Contrary to the Commission's recommendations that it should place its necessary operations on a fully self-supporting basis and diminish its competition with the private power industry, it would appear that TVA is going in the opposite direction on a major scale. A news item in the April 11 issue of Business Week reads as follows:

The Tennessee Valley Authority this week unwrapped a 30-year expansion plan which would quadruple its generating capacity to 50 million kilowatts and cost up to \$7 billion.

At present TVA has some \$2 billion invested in power dams and steamplants. In announcing the plans TVA Chairman Aubrey J. Wagner told members of the Tennessee Valley Public Power Association that they in their turn would have to spend \$4 billion during the 30 years on transmission and distribution facilities.

It is my understanding, Mr. Chairman, that our private enterprise, taxpaying public utilities are prepared to meet the power needs of the country and that there is no reasonable justification for any enlargement, let alone this massive program, at Government expense, of setting up and carrying out this tremendous expansion plan.

## NUCLEAR POWER VERSUS COAL

My second current point in this area relates to the production of commercial electric power from nuclear energy. There can be no quarrel with governmental research and experimentation being developed to the extent of making commercially available the technology of usefully controlling atomic fission. Going beyond this is another matter. In the eastern segment of the country, with which I am more familiar, it is well known that there are great natural resources of bituminous coal in Virginia, West Virginia, Kentucky, Pennsylvania, Ohio, and Illinois, and I might have mentioned Indiana, Mr. Chairman, because there is coal production there of some prominence.

The economy of great segments of these States is dependent upon coal production, and the related interest of transportation is substantial. By far the greatest domestic consumption of bituminous steam coal is by the electric utilities.

The Consolidated Edison Co. of New York has one nuclear powerplant in operation and has a second under consideration (but momentarily withdrawn) within the environs of New York City. The Jersey Central Power & Light Co. has announced the nuclear-type construction of what will be the largest plant in its system, in New Jersey at Forked River, a location which happens to be on my own railroad. Niagara Mohawk has announced the construction of a major nuclear plant near Oswego, N.Y. Other plans are under consideration.

The fuel supply for these plants is to come from the Atomic Energy Commission at nominal cost—nominal in relation to the magnitude of the Government investment represented by past research, and development of facilities in the amount of over \$1.5 billion for the manufacture and distribution of the atomic core material involved.

Beyond this, the Price-Anderson indemnity statute in effect until 1967, provides for an insurance ceiling of \$500 million and Government liability to that extent with respect to public liability inherent in any commercial atomic powerplant. I am informed that such a ceiling is but a fraction of the real public liability involved in a major plant disaster. This indemnity statute should not be extended.

Further, we have the waiver of fuel use charge and the Atomic Energy Commission guarantee to purchase byproduct material from such commercial plants. It would appear from every reasonable standpoint that private ownership of nuclear fuel should be mandatory for utilities using this to produce power for public consumption.

Here we have a picture of indirect Government competition and aid adversely affecting both the economy and the social well-being of great segments of the States I have enumerated, many of which are in the general Appalachian territory that the administration has recognized as presenting very real depressed area problems.

I might add, Mr. Chairman, that both the coal industry and the railroads have taken great strides in the past 2 years toward improving the efficiency of coal production and coal transportation to the end that coal in trainload lots might be available to the utility industry at greatly reduced cost. But even this combined accomplishment has difficulty in competing successfully with the effect of continued Government assistance to atomic power. I am sure I need not tell the

members of the committee that the railroads in the East are vitally dependent upon the transportation of coal.

I suppose, Mr. Chairman, that no one knows better than yourself that there is a contribution in payroll and coal company spending in State and local taxes in the State of Illinois from the coal industry of some \$42.5 million annually; Indiana, \$25.5 million; Pennsylvania, \$189 million; Kentucky, \$146 million; West Virginia, \$430 million; Ohio, \$60 million; and Virginia, in but two counties, some \$83 million.

Thus, the contribution in payroll and coal company local spending and local taxes in those States amounts to \$977 million annually. This coal industry that is so seriously threatened at the present time by this particular type of Government aid—let us just take one county of West Virginia, Boone County. Its coal payroll last year was \$9.8 million. Its State and local taxes from the coal companies were \$1.2 million. The coal company spent \$15.8 million for services or contracted \$428 million to the economy. There is little else in that county, as you know. That payroll money was used for food and housing and apparel and transportation and paying doctor bills, and radio sets and laundry bills and what have you. This happens to be a county that is shipping coal in this eastern territory for the utilities. So I think we have a situation where far-reaching impact can be expected.

#### BUDGET AND ACCOUNTING

There is one more major report of the second Hoover Commission to which I would call the Joint Economic Committee's attention; namely, that on budget and accounting.

There were 25 recommendations in the Commission's report based upon an exceedingly able task force study under the chairmanship of J. Harold Stewart, then of the Boston accounting firm of Stewart, Watts & Bolling. The report pointed out that unspent appropriations were as high as \$75 billion annually and recommended that unspent appropriations be annually rescinded by the Congress and reevaluated as a part of a broader recommendation that the budget be based upon a system of cost and accrual rather than obligation budgeting. It was felt by the Commission this would restore to the Congress a more intensive control of dollar expenditures and that modern accounting methods involved would bring realistically usable accounting tools to the administrative organizations in all departments.

This report, transmitted to the Congress in June of 1955 had specific endorsement from President Eisenhower. It had the general approval of the Bureau of the Budget and the General Accounting Office. Legislative implementation was introduced by then Senator Kennedy and Congressman Rogers.

After some delay it was passed on an experimental basis in 1959, the legislation expiring after a 2-year period. The usefulness of the change was not recognized by the leadership of the Appropriations Committee of the House and there has yet to be any compelling pressure from Congress to reestablish the reform involved.

It is fair to point out, Mr. Chairman, that some specific departmental budgets have been changed to a cost and accrual basis, but in general the broad principles involved in this report still represent a monumental opportunity for the improved management of our spending operations.



These are some of the areas where the work of the Commission has established great blueprints for betterment of our Government and I recommend to the Joint Economic Committee that its staff review the status of these matters Government-wide and that the committee have the full support of the Bureau of the Budget in developing the necessary information.

#### COMMITTEE HEARINGS

In closing, Mr. Chairman, I desire not only to express personal appreciation for the opportunity of participating for the third time in the Joint Economic Committee's further review of these important matters, but in particular wish to reiterate my belief that the Joint Economic Committee in a hearing of this kind is performing a needed service, not duplicated in any other place in our system of Government. In its considerations of programs such as those involved in this hearing, this committee has brought into constructive focus their relationship to the economy as a whole. It has placed programs in perspective. It has gone further and made specific and valuable recommendations.

I not only commend the work of the committee as such, Mr. Chairman, but I submit that its accomplishments have been measured by the broad and important bipartisan consideration which has characterized the work of the committee since its inception, which is a tribute, and I so intend it, to your personal stewardship as its chairman. I hope that the work of the committee, so important to our taxpaying citizens, will be continued.

This does not take away from Congressman Curtis the fine support he has given to you throughout the life of this committee. He has had a dedicated interest in it.

#### BIPARTISAN APPROACH OF COMMITTEE

Chairman DOUGLAS. May I say I appreciate what you have said, but I also want to say that while Congressman Curtis and I differ on many matters of public policy, that no one could have had a better colleague or cooperative one, in this work of reducing waste than I have had in Congressman Curtis. I wish to extend my personal appreciation to him. I expect that we will differ in the future as we have in the past on many matters of public policy, but we can find work together on a wide range.

Representative CURTIS. I want to thank the chairman. It has indeed been a pleasure to me because in this area we are after the same thing.

Mr. SHOEMAKER. Mr. Chairman, with your permission I would like to introduce Dr. Klumpp at this time to follow up with a few brief remarks about medical services report and then perhaps if you have questions you can attack us both.

Chairman DOUGLAS. If you wish. I have several questions to ask of you.

Mr. SHOEMAKER. Whichever you wish to do it, sir.

Chairman DOUGLAS. Let Dr. Klumpp testify.

#### TESTIMONY OF DR. THEODORE S. KLUMPP

Dr. KLUMPP. Mr. Chairman, I am very grateful to you for this opportunity to add a few remarks to those given by Mr. Shoemaker.

I will make them brief and to the specific point of the Federal medical services.

The second Hoover Commission made its report to the Congress on Federal medical services in February 1955, and I am very sorry I have to report to you that it is not evident to me that the 29 recommendations of the Commission in this area have been acted upon to any substantial extent.

Chairman DOUGLAS. Have not been acted on?

Dr. KLUMPP. Have not been acted on to any substantial extent. The fundamental problems and principles involved in that portion of the report of the second Hoover Commission are the same today as they were 9 years ago. The Commission's recommendation No. 2—with your permission I will read recommendation No. 2, since it has a direct bearing on the subject matter before this committee today.

#### HOOVER COMMISSION RECOMMENDATIONS ON MEDICAL AND HOSPITAL SERVICES

This recommendation reads:

That the medical and hospital services of the three armed services be modified into a much more closely coordinated pattern which will provide that (a) military medical and hospital services within continental United States be coordinated by assigning to a single military department the responsibility under the direction of the Secretary of Defense for supervisory hospital service in a defined geographic region, and that this concept be furthered wherever practicable in extra-continental areas; (b) patients in all military departments requiring highly specialized medical care be concentrated into special hospitals, each of which will serve the three departments; (c) the Secretary of Defense be given authority to strengthen, consolidate, modify, and reallocate medical care responsibilities of the three departments in line with recommendations (a) and (b) above; and finally (d), each of the three military departments maintain a medical center, the components of which should be a hospital and a center for education of military medical personnel occupied with medical problems identified with the primary mission of the Department.

#### SMALL ACCOMPLISHMENT

So far as I have been able to ascertain very little has been accomplished in realizing this wholly commonsense objective. So far as I know, few, if any, Federal hospitals have been closed except by obsolescence, closing of the military bases of which they were a part, or by relocation of the institutions themselves. We all recognize that we must have more hospital facilities, broadly, than we can actually use in ordinary times to provide research and standby facilities against a grave large-scale catastrophe. But the medical services task force expressed the view that it is not sufficient to maintain a series of half empty, inadequately used, active hospitals.

In the first place, in any major catastrophe or national or international emergency our civilian hospitals will be drawn into service at once. These are the backbone, the real center of our hospital reserve. These private community hospitals should be augmented and strengthened as indeed through the Hill-Burton Act, and other steps they are in the process of being augmented.

On the other hand, in a partially utilized military hospital, and studies in the 1950's showed very low utilization of many such Federal institutions, the physicians and surgeons in such institutions are not being adequately trained. They don't get enough practice to become and remain highly skilled practitioners.

A brain surgeon, for instance, who has one operation a week cannot maintain the same skill as another surgeon in a busier institution who does one or more brain operations each day. These men should be working in hospitals with a high complement of patients.

There has always been a minor amount of cross utilization of medical services among the major units of the Department of Defense. This remains still a small and insignificant fraction of what it should be.

As you pointed out in previous hearings of your committee, Mr. Chairman, illness has no respect for the cut or color of a man's uniform. The bodies of soldiers, sailors, and aviators are the same, and it takes exactly the same care and medical skill to keep them well or return them to good health.

A hospital nightshirt is a great leveler. I have found that in it one can't tell a sailor from a flier, or even a general from a private, or an admiral from a common seaman. There is no reason whatsoever why the same doctors, and better doctors, should not take care of all military personnel regardless of service and including other non-military medical beneficiaries of the Federal Government.

Mr. Chairman, I shall not take your time to review all the recommendations of the Commission with respect to medical services. They are a matter of record and if you desire they can be included as part of these hearings.

Chairman DOUGLAS. I would like to have that done at the proper time.

(Recommendations referred to follow:)

*Recommendation No. 1*

In order to effect the above responsibilities, the President should appoint a Federal Advisory Council of Health, to be comprised of members of the medical professions together with lay members of distinguished records in fields other than the medical professions, and to serve at the will of the President. The Council should have a small staff but should depend upon other agencies of the Government for information.

*Recommendation No. 2*

That the medical and hospital services of the three armed services be modified into a much more closely coordinated pattern which will provide that:

(a) Military medical and hospital services within continental United States be coordinated by assigning to a single military department the responsibility under the direction of the Secretary of Defense for supervisory hospital service in a defined geographic region and that this concept be furthered wherever practicable in extracontinental areas;

(b) Patients of all military departments requiring highly specialized medical care be concentrated into special hospitals, each of which will serve the three departments;

(c) The Secretary of Defense be given authority to strengthen, consolidate, modify, and reallocate medical care responsibilities of the three departments in line with recommendations (a) and (b) above; and

(d) Each of the three military departments maintain a medical center, the components of which should be a hospital and a center for education of military medical personnel occupied with medical problems identified with the primary mission of the department.

*Recommendation No. 3*

That the Secretary of Defense, with the assistance of the Federal Advisory Council of Health, develop recommendations for revision of the Selective Service Act to effect maximum utilization of medical personnel.

*Recommendation No. 4*

That the Secretary of Defense strengthen the armed services training program for interns and residents, for other physicians, and dentists on active duty, and for Reserve Officers not on active duty.

This program should be planned and directed from the medical center of each service, using selected military and civilian hospitals for special training.

*Recommendation No. 5*

That the Administrator of the Veterans' Administration consider the recommendations made by the task force as to closing of certain hospitals and obtain the advice of the proposed Federal Advisory Council of Health on these recommendations; that all hospitals determined to be surplus be closed immediately.

*Recommendation No. 6*

(a) That all present outstanding authorizations and appropriations for construction of additional veterans' general hospitals be rescinded except for those now under construction or under contract.

(b) That the Veterans' Administration dispose of by sale or otherwise any hospital which in its judgment can no longer be operated effectively and economically; and that the proposed Federal Advisory Council of Health on behalf of the President review the manner in which the hospital facilities of the Veterans' Administration are being used and make recommendations for disposal or more economic utilization of the hospital plant.

*Recommendation No. 7*

That the statement of a veteran of his inability to pay for hospitalization for non-service-connected disabilities should be subject to verification; and that the Veterans' Administration be authorized to collect in case such a statement is not substantiated.

The regulations of the Veterans' Administration do not require veterans having service-connected disabilities but making application for treatment of non-service-connected disabilities, to sign the statement of inability to pay (VA form IO-P-IO, together with its addendum). Such veterans constitute about 13 percent of the veteran patients in veterans and other hospitals.

*Recommendation No. 8*

That veterans having service-connected disabilities but making application for treatment of nonservice disabilities be required to sign a statement of inability to pay (VA form IO-P-IO, together with its addendum).

*Recommendation No. 9*

That the veteran should assume a liability to pay for care of his non-service-connected disability if he can do so at some reasonable time in the future. Such a debt should be without interest. Congress should pass appropriate laws providing for the collection of such obligations.

*Recommendation No. 10*

That outpatient care, whether prior to or following hospitalization, be furnished to indigent veterans with non-service-connected disabilities. (This does not include neuropsychiatric cases prior to hospitalization.) Such patients should also assume a liability to pay for their care if they can do so at some reasonable time in the future.

*Recommendation No. 11*

That the Veterans' Administration emphasize its program of medical care and rehabilitation services for the aging veteran eligible for care, in order to reduce the number of chronic bed cases.

*Recommendation No. 12*

That the medical care functions of Veterans' Administration regional offices be consolidated with, and where practicable physically located within, nearby Veterans' Administration hospitals.

*Recommendation No. 13*

(a) That the responsibility and authority to establish and maintain medical criteria for disability, both initial and continuing, should be transferred from the Compensation and Pension Branch of the Department of Veterans' Benefits, to the Department of Medicine and Surgery.

(b) That the Department of Medicine and Surgery should also develop and maintain a mechanism for review of disability allowances based on the possibility of increase or decrease in disabilities.

*Recommendation No. 14*

That all laws relating to veterans or veterans' benefits, and in particular to medical treatment and domiciliary care benefits, be consolidated and enacted into a single, all-inclusive, comprehensive code; and that all existing rules, regulations, and Executive orders relating to veterans and veterans' benefits be brought together in one volume.

*Recommendation No. 15*

That the provision of hospital and clinical service to American merchant seamen by the Federal Government be ended.

*Recommendation No. 16*

(a) That the hospital and medical care of the Coast and Geodetic Survey, the Coast Guard, and the Public Health Service personnel be provided for by the military medical services at their nearest facilities, and that, pending the establishment of voluntary contributory health insurance plans for dependents, the dependents be similarly cared for on a reimbursable basis between the agencies.

(b) That civilian Federal Government employees receive care for job-connected illness in the non-Federal hospitals at the expense of the Bureau of Employees' Compensation in the Department of Labor.

*Recommendation No. 17*

That except for mental, drug addict, tuberculosis hospitals, the Leprosarium, and also the facilities for the care of Indians, the Freedman's Hospital, the Public Health Service should close all of its general hospitals and all of its clinics, except research activities, such as those conducted by the National Institutes of Health and those clinics necessary for (a) physical examination of Federal civilian employees, and (b) examination of foreign nationals entering the United States. These hospitals should be disposed of in accordance with our suggestions in chapter II.

*Recommendation No. 18*

That the Secretary of the Department of Health, Education, and Welfare reconsider the whole question of the use of specific Federal grants to the States for health purposes, particularly in relation to the inflexibility of the present system.

*Recommendation No. 19*

That the President establish a joint committee representing the Department of Health, Education, and Welfare, the Department of Agriculture, and the Bureau of the Budget, with the advice of the Federal Advisory Council of Health, to make a detailed examination of the policies, programs, and operations of the Food and Drug Administration and the Agricultural Research Service in the Department of Agriculture, with a view of eliminating those activities no longer necessary under present conditions and eliminating conflicts and overlap between Departments.

*Recommendation No. 20*

That the executive branch develop a voluntary contributory program of medical care and hospital insurance to be conducted through a pool of private health insurance agencies, for all the civilian employees of the Federal Government, on a prepayment basis and using payroll deductions. The Federal Government should pay a portion of the cost. This program should contain a provision for convertibility to family coverage on termination of Federal employment.

*Recommendation No. 21*

That the Government develop for dependents (within the United States) of military personnel a voluntary contributory plan of medical care and hospital insurance to be conducted through a pool of private health insurance agencies, for inpatient care and, as far as practicable, outpatient care; and that in this case the Federal Government pay a greater portion of the cost than might be determined by the Congress for civilian employees. Such insurance for dependents would be convertible to family coverage on completion of military service.

*Recommendation No. 22*

That the Government develop for dependents of uniformed personnel of the Public Health Service, the Coast Guard, and the Coast and Geodetic Survey, a voluntary contributory plan of medical care and hospital insurance similar to that which we have recommended for military dependents.

*Recommendation No. 23*

That legislation be enacted to establish a National Library of Medicine as a Division of the Smithsonian Institution, with a Board of Trustees to be selected by the Board of Regents of the Smithsonian Institution; and that the Board of Trustees be responsible for directing the policy of the National Library of Medicine. The medical collections, staff, and activities of the Armed Forces Medical Library should be transferred to these trustees. Housing and a budget adequate for the National Library of Medicine should be provided.

*Recommendation No. 24*

That the proposed Federal Advisory Council of Health made recommendations to improve preventive health services, including those rendered in connection with medical care of Federal beneficiaries, in the interests of both health conservation and long-range economy.

*Recommendation No. 25*

(a) That the proposed Federal Advisory Council of Health be given responsibility for reviewing the health research programs of the Federal Government; and the making of appropriate recommendations to the President; and

(b) That the present system of projects grants to institutions or agencies for research pertinent to health be modified, and that it be gradually replaced by a system of grants not confined to a specific year (i.e., "no year" grants), these grants to be made in accordance with an approved overall plan for health research submitted by each institution or agency.

*Recommendation No. 26*

That the Federal Government in making plans for assignment of responsibilities during and immediately following an attack on the continental United States should include in its consideration of the problem the question of appropriate delegations of operational authority for directing medical care.

*Recommendation No. 27*

That the proposed Federal Advisory Council of Health examine means of establishing cooperative planning among Federal agencies providing psychiatric care; that the military services and the Veterans' Administration give greater emphasis to preventive psychiatric services; and that the Federal Government, through the Public Health Service, encourage more research and more training of psychiatrists and workers in allied fields.

*Recommendation No. 28*

That the President's adviser on personnel review the personal systems of the several Federal agencies using health personnel and consult with the proposed Federal Advisory Council of Health with a view to making them more uniform; and that he give consideration to greater use of cross-agency assignment.

*Recommendation No. 29*

That in the event the proposed Federal Advisory Council of Health is not created, the President assign the functions of review and advice proposed for it to other agencies.

**Dr. KLUMPP.** I should like to refer only to the first and overriding recommendation of the task force and the Commission. They joined together in providing this first recommendation. It reads as follows:

In order to effect the above responsibilities the President should appoint a Federal Advisory Council of Health to be comprised of members of the medical profession together with lay members of distinguished records in fields other than the medical profession and to serve at the will of the President. The Council should have a small staff, but should depend upon other agencies of the Government for its basic information. It was the view of both groups, the task force

and the Commission, that the scientific, medical, and economic aspects of the Federal medical services was so complex and was so inextricably interwoven with the sum total of the health service that it was one of the greatest importance that such a body of the most eminent and skilled persons available constantly review health and medical services of the Federal Government and their relations to the economy in general.

I shall conclude, Mr. Chairman, by saying that the Commission and its task force made a most thorough study of our Federal medical services and came to the 29 recommendations to which I referred. Except for the National Library of Medicine, practically nothing has been done either by the Congress or the executive branch of the Government to implement these recommendations, and more importantly, to effect the savings, efficiencies, and improved systems of medical care to which those who are dependent upon the Federal Government are entitled.

Thank you very much.

Chairman DOUGLAS. Thank you.

I want to thank both of you gentlemen. I may say I am in thorough accord with the recommendations of Dr. Klumpp. In this respect the creation of a separate air service has resulted in a third medical service in addition to the Army and Navy medical services before.

We have had the spectacle—I don't know whether it exists now—of one hospital in a given area being full and another hospital having very few patients and yet no possibility of pooling, both being half used when one could be fully used. This duplication of services has gone over even into the field of religion. I had not thought that the religious needs of the Air Force differed from those of the Navy or the Army. That a unified Chaplain Corps might well be provided. I had hoped also for cooperation not only between the services but with the hospitals run by the Public Health Service and VA. These are very deep difficulties and I can understand Secretary McNamara's desire not to take them on until he has finished with some of the problems that he has.

#### CHAIRMAN DOUGLAS COMMENTS ON MR. SHOEMAKER'S TESTIMONY

In connection with Mr. Shoemaker's very interesting statement, I found myself in agreement with about two-thirds of it in terms of subjects. I would agree that where there are accessible competitive plants involved in developed industries that the work should be done in private plants—laundries, for example, and many other activities.

#### ABSENCE OF COMPETITION IN PRIVATE SECTOR

I would like to suggest that under certain circumstances at least to my mind justify public activity. My colleague may differ with me. We may get into a discussion on this point. There are certain activities and products which are not characterized by competition in the private sector. I am probably older than any of you, but I remember the days when the New York World published the facts about absence of competition in shipbuilding and in the production of armorplate steel, indicating very close agreements between the various firms. I know something about the activities of shipbuilding companies. I

think you will find that the authorization for Government construction of ships was originally intended, at least, to furnish a measuring stick so that the private companies would not be able to raise the contract rates unduly through noncompetitive bidding. There are many more noncompetitive bidding agreements in industry than is commonly admitted, as the trials and sentences in the electrical equipment industry have, I think, demonstrated. I know this is a very sore matter, perhaps especially so with Dr. Klumpp. I followed the investigations of my friend and associate, Senator Kefauver, very closely in the drug industry. I at least became convinced that the drug industry was for various reasons in large part noncompetitive and that the prices for the trademark brands were vastly in excess of production costs, and in excess of the prices which the same drugs were sold in Latin America and Europe. I personally have applauded the efforts of the Defense Supply Agency to break through these agreements. This has met with great opposition, I know.

Again a lower price on what should be standardized products but which have been differentiated by advertising or what Professor Chamberlain, at Harvard, calls monopolistic competition. That is No. 1.

I felt I should file this demurrer, Mr. Shoemaker, lest it be thought that my silence meant acquiescence.

#### GOVERNMENT PARTICIPATION REQUIRED FOR BREAKTHROUGH

There is a second point also. We need break through in various fields of scientific and industrial knowledge and procedure. Sometimes these require a degree of capital and a boldness of initiative which private industry cannot be expected to make. Most notable in this field is atomic energy, of course, upon which the security of the Nation has in part depended, and the defense of the free world. If we had relied on pure private industry to develop nuclear energy we never would have obtained it. The pressure of the war required this and the Government carried it through in cooperation with the universities and private industry and made great advances. If it had failed the Roosevelt administration would have been subject to tremendous condemnation. Now we have these resources and we hope we can get this energy used for peaceful purposes rather than merely for military purposes. The production costs are high. They are not competitive. Undoubtedly that is true. I have not seen the figures but I would doubt if the production costs are below 3 cents a kilowatt-hour, or 30 mills a kilowatt-hour, which is way above the commercial rate either from hydroelectric or coal sources. Yet we may be able to break through.

You have to have some plants for peaceful purposes. Those are simply two illustrations.

#### OIL FROM SHALE

I might add to this the possibility of the extraction of oil from shale and the extraction of oil and byproducts from coal. These require investments and require boldness.

It is well known that the oil industry has tried to stifle developments in the field of extraction from shale, notably in Colorado, and has been very antagonistic to the possibility of getting oil from coal. I think



the closing down of the Missouri plant somewhere around Hannibal was due to the pressure of the oil industry.

#### DESALINIZATION OF WATER

Similarly, one of the big problems we have, of course, is the effective economic extraction of salt from sea water so it can be drinkable and be used for irrigation purposes. The problem of the deserts of the world would be largely resolved. You can't expect private industry to go to this great expense. This is probably a resource and asset that should be kept in public hands.

#### MULTIPLE USE OF RESOURCES

If I may continue, because I think the case needs to be stated in the case of a multiple use. It is not merely the generation of power, but flood control and also the conservation of the soil and increasingly, what was not originally fully recognized, recreation, to include the development of the lakes and reservoirs, which I think are extremely important.

#### USE OF RAILWAYS FOR LOW-VALUE CARGO

Finally, if I may carry the battle into the railway industry itself, I have been very anxious to have the railways used more in the transportation of low-value cargo. I have favored—it has been very unpopular, too—use of the bargelines to pay for the river and harbor improvements. I must say that the barge industry has fought this tremendously. It has been impossible for us to get this through. I have not felt that we had very full cooperation from the railroads in this matter.

#### TRAINLOAD RATES

I also believe that the rail industry or that the railways should give lower rates for trainloads than they have been doing in the past. They do give carload rates. There was a sentence in here which seemed to indicate that they are giving lower trainload rates. If this is so, it is a fine development. But for a long time, so far as southern Illinois was concerned, there was only one railroad, the Chicago & Eastern Illinois, I believe, which gave trainload rates. They had difficulties with their fellow railway executives and the Interstate Commerce Commission. Has this latter point been cleared up? Are there now trainload rates?

#### ICC APPROVES TRAINLOAD RATES

**Mr. SHOEMAKER.** Mr. Chairman, we have had a very interesting development in this field. For a great many years the railroads have wanted to establish trainload or quantity rates in excess of single car rates.

As you know, I am sure, that has been quite common in Europe and England and even in Canada. It is only in the very recent past that we have had a real breakthrough with respect to this from the Interstate Commerce Commission. It has been put in experimentally with

coal. You will be interested to know that currently more than 60 percent of the soft coal from the East is moving in trainload rates at reduced charges to the recipient of the coal.

Chairman DOUGLAS. Has this extended into the Middle West?

Mr. SHOEMAKER. Yes, it has, sir. It is very extensive in Illinois and Chicago. Only yesterday I saw that the Northern Pacific is doing it in North Dakota. It is being used in the South.

#### TRAINLOAD RATES ON GRAIN

Now we have just established in the last few months solid trainload rates on grain. So this is developing helpfully.

Chairman DOUGLAS. Has the difficulty been with the Commerce Commission or with the railways?

Mr. SHOEMAKER. I think, Mr. Chairman, it has been with both. The Commission has wanted to retain the validity of the single car rate. You will recall that it was not until the Transportation Act of 1958 was passed that the Commission was at all relieved from the responsibility of protecting other forms of transportation who might be disadvantaged by a lowering of railroad rates. All of this development of trainload rates has developed since the Transportation Act of 1958 was passed.

We have, as an industry, been all out on this matter of barge competition. We even tried to buy some bargelines and it was rejected by the Interstate Commerce Commission as being improper under the act. A bargeline can own a railroad but a railroad cannot own a bargeline, which seems a little silly but that is the way it is.

I would just like to make this comment, Mr. Chairman. I don't think we are basically apart very much with respect to TVA or the Atomic Energy Commission. For example, the problems of bureaucracy are that when something is established for a very proper purpose, and certainly the basic research and experimentation and the making of mistakes through trial and error is a proper function for Government and many of the great developments of this country have come from that. The problem is to get Government out of the commercial usage of these developments after they are once available. That is exactly where we are with respect to nuclear power. The atomic power is now just another form of energy and it is available for commercial usage. The oil shale experimentation carried out by Government was very excellently done. But that is now to the point where the experimentation has been successfully concluded. It doesn't justify, it seems to us, the Government staying in that kind of a manufacturing operation. I think if we are apart at all it is that distinction that I would desire to make.

Representative CURTIS. I have a quorum call, Mr. Chairman, but I would like to first thank the Hoover Commission for the great help it has given the country over a period of years in this work. Secondly, I want to say to Senator Douglas, who said he probably agreed with about two-thirds of what you said, that I would agree with about fifteen-sixteenths of your testimony. But I would also say, Mr. Chairman, that I would disagree with you on the guidelines. When we discuss their application, we might have our differences.

## UPDATING ANTITRUST LAWS

For example, we certainly need to constantly update our antitrust laws and make them more adequate. I think they need a lot of updating. But more important, they must be equitably enforced. In my judgment here is one of the grave errors that exists.

Mr. SHOEMAKER. I hope you would have them apply to all segments of our society.

Representative CURTIS. I have introduced a bill to create a commission to study this in the field of labor because I don't think the same antitrust laws that we have in the management area are designed to handle the concentration of union power. I certainly think we have to have something comparable so that we don't have a concentration of union power and a bringing about of national bargaining, which is bound to make the Congress intervene if there are any problems.

## TAX BASE—GOVERNMENT TO PRIVATE INVESTMENT RATIO

On this general approach, though, I think this committee, not being a legislative committee, is well designed to get into some of these guidelines, to see how we should move. Cost accounting is part of it. Because I am on the Ways and Means Committee, I am concerned about our tax base. I once made a rough estimate that in 1929 the ratio of private capital investment to Federal Government, was 9 to 1. Today that is below 5 to 1.

Essentially our tax base is in the private sector. I happen to feel, too, that a great deal of this problem revolves around what kind of personnel system best produces these results. In the governmental sector, I was wondering whether it is a military or civil service personnel system. Relating it between the private and governmental sectors, we developed the civil service system, which is fine. But this has developed a rigidity which is necessary to guard against.

This is something we all recognize it should not have. But it does have this rigidity which does not exist and does not need to exist in the private sector where you can have innumerable types of personnel complexes. In fact, part of the competition is between personnel systems. For example, as the chairman has very properly pointed out, the key to our moving forward is research and development. This Committee did some excellent studies, I thought, back in 1958, on the tax structure and its economic applications. To me this is an unanswered question on research and development. Maybe we don't have to go through the mechanism of the Government to do some of this research and development. I agree with you that without the Federal mechanism we would not have had atomic energy, for example. I think we are touching on some basic points that this Committee, not a legislative committee, could well develop, and in a way we are developing them as we continue this dialog.

Chairman DOUGLAS. Mr. Curtis, I am inclined to believe that ultimately we may agree.

Representative CURTIS. We don't disagree too much. I only disagree with those who advance their theories and then when we want to have a dialog or debate, they run away. I am willing to stay and talk it out. But I cannot now because I have a quorum call.

Chairman DOUGLAS. Gentlemen, we appreciate your coming here. You offered here a public service as always and I hope we all continue our interest in these matters.

Mr. SHOEMAKER. Thank you, Mr. Chairman.

You shall have my personal interest. I should like to say certain things. In giving certain figures with respect to payrolls and economics of the coal industry in the various soft coal States, I should have given you my source of information because it is a joint study just released this week by the United Mine Workers and the National Coal Association.

Chairman DOUGLAS. That is what is called a united front.

Mr. SHOEMAKER. To a degree, sir.

Secondly, I would not want my testimony to close without paying the high respect which I feel to your very able staff director, Mr. Ward. He has, I think, provided a tremendous public service over the years in the Government, certainly this past year working with us.

Chairman DOUGLAS. I appreciate your saying that. I have always said that he appears under many aliases. At times he is Paul Douglas, at times he is Thomas Curtis, at times he is John McCormack. At times he has been Joseph O'Mahoney. But he has always been a public servant. Since we are passing compliments around, I want to say your Washington representative, Mr. Upman, has always been most helpful and cooperative. We appreciate his services and your services.

Mr. SHOEMAKER. Thank you, Mr. Chairman.

Chairman DOUGLAS. On this note of mutual admiration we can part, although I hope not permanently, friends.

Our final witness is Mr. William Bergman, who is chairman of the committee of 22 industries recently organized to reduce Government competition with private industry. It is understood. I believe, Mr. Bergman, in view of the pressure of time that you will read part of your statement and insert the balance in the record.

Is that satisfactory to you?

You may proceed as you wish.

Mr. BERGMAN. Yes, it is, Mr. Chairman.

Before I read the statement, Mr. Chairman, may I express our gratitude to you and other members of the committee for an opportunity to appear before you today.

#### **STATEMENT OF WILLIAM S. BERGMAN, CHAIRMAN, COMMITTEE TO REDUCE GOVERNMENT COMPETITION**

Mr. BERGMAN. My name is William S. Bergman. I appear here today as chairman of the Committee To Reduce Government Competition—an informal organization composed of representatives of 22 industries affected directly by some form of competition from Government-owned and operated commercial-industrial activities.

Among the industries represented in the Committee to Reduce Government Competition are: Small businessmen, aerospace services, communications, photogrammetry, shipbuilders, ship repairers, textbook publishers, food chains, employment agencies, consulting engineers, editorial services, printing, florists, and insurance.

We have noted with encouragement the efforts of the Joint Economic Committee to place the issue of Federal competition with pri-

vate enterprise in its proper frame of reference. It is our firm belief that your efforts are contributing much to a better public understanding of this problem, and, we believe that your endeavors will point the way to realistic solutions.

In contradiction to the competitive economic system we cherish as a nation and strive to nourish, it is an anomaly to find the Federal Government engaged in so many commercial-industrial enterprises. No doubt, some of these can be justified from the standpoint of national security, but, as the House Committee on Government Operations warned in 1954:

\* \* \* if Government competition with private enterprise were pushed to its logical conclusion, the Government would ultimately destroy its source of income—commit national economic suicide.

Obviously, Government competition with private industry affects the revenues received at the public treasury. It is therefore urgent that the Federal Government exert its best effort in every detail to direct its purchasing toward the private sector of our economy where dollars spent by the Government will generate corporate earnings and corporate earnings will generate needed tax revenues. I am sure you would agree that this is a sound policy, with or without a closely balanced budget.

Both political parties have for years supported the proposition that to the maximum extent possible, the Federal Government should divest itself of activities which compete with private enterprise. The late President Kennedy once said:

\* \* \* private enterprise under our system of government must remain the basis of our economic and political strength. It is the alternative we offer to communism. Government must do only those things which private enterprise cannot do.

President Johnson, in a recent television broadcast, similarly applauded free enterprise in eloquent terms.

Much progress has been made toward getting the Federal Government out of business, but as you will see from the situations affecting industries in our group, there is still room for more progress. With your permission, I should like to summarize briefly.

#### PRINTING INDUSTRY

Government competition with the commercial printing industry was inaugurated by Congress with the establishment of the U.S. Government Printing Office slightly over 100 years ago.

The printing industry has always recognized that there are some aspects of printing production which properly and justifiably should be produced on Government facilities. It is also recognized that in a few isolated instances there are Government facilities in highly remote areas where the operation of Government printing facilities is a logical solution to the satisfying of Government needs. The industry recognizes and does not dispute these applications.

Generally speaking, Government competition with the printing industry can be divided into two broad classifications, (1) the volume of printing which is produced by the U.S. Government Printing Office in Washington, and their field plants; and (2) the volume of printing which is produced by the hundreds of Government printing facilities which are not operated by the U.S. Government Printing Office.

It is apparent from the facts published by the U.S. Government that a volume of printing well in excess of \$150 million is being produced on Government equipment in Government-operated buildings by Government personnel.

It is also apparent that the Government of the United States is engaged in a substantial way in competition with the commercial printing industry.

The commercial printing industry has a surplus of production capacity, and except for a few isolated areas, is in the position to relieve the U.S. Government of a substantial portion of printing which does not fall within the classification of work which the Government should produce.

Cause for the present-day alarm in the area of the Government's competition with the printing industry is the fact that the current appropriation requests include a provision for an expenditure of \$47.5 million for an entirely new Government printing facility.

This is expected to be the largest single project for Government building among the General Services Administration budget requests. Obviously, this expenditure of \$47.5 million of taxpayers' money could be avoided if a substantial portion of the present volume of Government printing were contracted to the commercial printing industry.

A study of the Government's highly developed procedure for contracting for printing will reveal that safeguards are provided to insure the purchase of printing at economical prices. Further, the Government has gone to considerable length to train personnel who are competent to purchase printing from these commercial facilities, and there are printing procurement specialists located throughout the United States.

It is believed that the commercial printing industry provides an excellent case history, in which there are an ample body of facts which can clearly illustrate the extent to which the Government is unnecessarily engaged in competition with private enterprise.

#### EDITORIAL SERVICES

Hometown newspapers, most of whom are weeklies, often have plants that enable them to double as commercial printers. For many years the Post Office Department has been in direct competition with these publisher-printers in the sale of envelopes containing printing.

The retail prices of printed envelopes sold by the Post Office are lower than the wholesale prices quoted by commercial printers. Bills to end this subsidized competition are hardy perennials in Congress.

There is another controversy in the newspaper industry over subsidized competition. American Newspaper Publishers has protested the establishment in late August by the U.S. Department of Agriculture of an expanded Market News Service.

This national teletype network operates in direct competition with a newspaper-owned service. The Government wire is subsidized by the taxpayers and sold at a lower price than private enterprise can meet.

Also, 8 percent excise taxes are not collected from subscribers to Market News Service, at a loss to the Government.

## EMPLOYMENT INDUSTRY

About 90 percent of American industry today uses the services of private employment agencies, who are thereby making a substantial contribution to our economy.

Now they are being pitted against their Government in a struggle for their very existence. This competition arises from the Department of Labor's Bureau of Employment Security. The private employment agencies, some 4,000 of them, come under the jurisdiction of State governments. In the main, they confine their activity to placement of white-collar groups, although domestic and labor agencies still exist in some of the larger cities.

Currently the private employment agencies are protesting the fact that the U.S. Employment Service is devoting too much of its time to the placement of men and women who are already employed. To this end, this tax-supported agency spends thousands of dollars in advertising through newspaper, yellow sections of the telephone book, radio and television to attract employed personnel. In other words, the employer is paying, through taxes, to have the U.S. Employment Service take his employees away from him.

The Bureau of Employment Security and its State employment services should limit their activities to the placement and training of the unemployed, the handicapped and the returning veteran, as was intended in the original law setting up these agencies.

## AEROSPACE SERVICES INDUSTRY

Government competition is found in other industries such as the aerospace services industry which engages in aviation and space service-type activities, both for the Government under contract and commercial enterprises.

One of the aerospace services industry's continuing missions during the past 22 years has been to encourage the Armed Forces and other Government agencies to make use of civil enterprise for such aerospace services which industry can accomplish more economically and efficiently within the framework of maintaining the strongest possible national defense.

## SHIPBUILDERS

One of the oldest areas of Government competition began at the turn of the 19th century—in 1799 to be exact—when the Federal Government authorized the establishment of the first naval shipyard to be financed and maintained with taxpayers' funds.

Though the rationale of that early policy is obscure, presumably it stemmed from the absence of commercial facilities to repair and service vessels of the U.S. Navy.

But, from those obscure beginnings, the naval shipyard complex proliferated to the point where the Navy points with pride to this Government owned and operated activity as an industrial giant.

Only four of America's biggest defense industrial companies have assets larger than the Navy's shipyards: General Motors, Ford, United States Steel, and Du Pont. These Government-owned industrial-type assets are, in fact, many times greater than (and duplicate) those of the entire private shipyard industry combined—an oddity indeed in our private enterprise society.

Of perhaps greater importance to this committee are these additional facts: The size of the U.S. naval shipyard complex is equal to, or greater than, the whole State-owned shipyard activity in all of Communist Russia; independent studies by two leading public accounting firms have demonstrated that costs in the naval shipyards range from 8 percent to 32 percent higher than in private shipyards; wages and fringe benefits are also greater in the navy yards; the Government shipyards employ roughly twice as many people as the private shipyards and while the naval fleet has decreased from 10,000 to 860 vessels since World War II; there has, in the same period, been no reduction in the tax-supported naval shipyard complex—the same 11 shipyards and one ship repair facility as in the beginning have expended and continued to operate at fairly stable work levels—at taxpayer's expense.

Meanwhile, more than 20 privately owned tax-producing shipyards have been forced out of business in the last 15 years, and idle capacity has been always available in the remaining commercial facilities.

#### ENGINEERS

Another of the serious areas of Government competition with private enterprise exists in engineering. Government agencies have increasingly gone beyond prescribed limits of providing preliminary study, preplanning, budgeting, and supervisory management control.

In addition, Government engineering staffs are performing design functions, which, in addition to supervision of construction, should be performed by private engineering or architectural firms.

The advantages to the Government in using private consulting engineer firms are numerous, if for no other reason than the economies involved. This difference in cost between public and private engineering is illustrated by a comparison of highway construction costs in one of the States, where private engineers are rarely used.

The average percentage of construction costs attributed to engineering design for a 6-year period in this State was 23.27 percent, whereas, in seven other cases involving highway construction performed by private engineering firms, the average percentage never was more than 10.09.

Private consulting engineering firms offer a wide variety of experts and specialists not possible to staff in a Government agency. Private firms can staff for workload requirements as they develop, whereas, Government agencies must staff to meet peak workloads expected.

When workloads decline, other work often is actively sought not only from other Government agencies, but States, municipalities, and private organizations which further proliferate the competition with private firms.

Private firms can stabilize their personnel rolls bringing about better morale and efficiency. They can show cost comparison savings, and they are available only when their services are needed and do not seek "make work" for their staffs.

#### PHOTOGRAMMETRIC INDUSTRY

Another industry which faces critical competition from the Government is the photogrammetric industry, comprised of surveyors and



mapmakers. Photogrammetry is the science of making measurements from photographs, and is the principal tool of mapmakers today; the instruments and techniques used were researched and developed with private capital by industry and individuals in private practice more than 40 years ago and continued development without appreciable research funds from the Government.

During World War II, Federal mapping agencies, realizing the vast potential of photogrammetry in carrying out national mapping programs, started to build up their capabilities in aerial photogrammetric operations based on defense-oriented requirements.

By the close of the war, the U.S. Geological Survey, Army Map Service, Coast and Geodetic Survey, Tennessee Valley Authority, and others had each established sizable engineering and plant facilities duplicating those found in private industry.

To continue the increase in facilities and manpower, these agencies have turned to new programs and areas of responsibilities in an attempt to justify their continual growth.

This duplication of services and facilities in private industry has grown to such an extent that today there is hardly a mapping need in which the Government does not actively participate.

Large-scale mapping for local and State needs, which, until recently, was traditionally left to private industry, now has a priority with the Government. These maps are produced by the Government with the State or local community paying only one-half the total cost or, in many cases, the maps are produced for the local agency for "free."

Other Federal agencies which are not, by congressional charter, concerned with existing national mapping programs, are being perpetuated in mapping operations through interagency contracts.

This continued widespread practice of interagency contracting for services that were once performed by private industry is one which the industry seeks to see discontinued. There is, however, another and more significant development which must be halted in the national interest; that is, the practice of using Government facilities and personnel on projects not connected in anyway with national mapping program objectives.

In some cases, Government agencies enter contracts with private interests and accept payment for the performance of services identical to those offered and readily available from the private firms in the photogrammetric industry.

The industry seeks the opportunity to demonstrate again, as many times in the past, the ability of private mapping firms to produce quality mapping for both Government and private interests, competing only with private enterprise in a sound economic climate.

In summary, gentlemen, the testimony presented here is from a representative group of industries who face serious problems from Government competition. These industries could fill pages of testimony with additional facts and figures, and would welcome the opportunity to present such additional information to your committee or to some other special study group that might undertake to investigate the magnitude of these problems.

We are certain that the Government, by the very concept of its organization, was not intended to compete with private industry toward

the end of reducing employment opportunities in private enterprise because of the functions performed by the Government.

It is our sincere belief that the Congress has not had opportunity to really be apprised of the startling proportions to which Federal competition has grown.

We would therefore hope that this committee would give consideration to our presentation and would see fit to take some tangible steps within the near future toward the end of eliminating this unhealthy state which is being allowed to persist and grow. We would like to respectfully suggest that the following four points would be desirable steps toward the ultimate solution of this problem :

1. That the committee would endeavor to set a time for a complete in-depth study on the subject of Government competition, calling upon Government personnel as well as industry in the hope that progress, consistent with the public interest, can be made toward a realistic plan for eliminating Federal competition.

2. That the committee continue its interest in seeing Bureau of the Budget Directive 60-2 be redrafted toward more effectively defining the policy of the Federal Government in eliminating those practices and services which compete with private industry.

3. That this committee and its members embrace the philosophy and the spirit of legislation currently before the Congress, which, if enacted, would lead to substantial reduction in Federal competition. The legislation to which I am referring is S. 1093, S. 2268, S. 2254, H.R. 8352, H.R. 9710, H.R. 10745, and H.R. 4926.

4. That the committee make recommendations to the appropriate standing committees in both the House and the Senate to hold hearings on this legislation, in order that the members of these committees, who have specific legislative responsibility in these areas are given an opportunity to become fully apprised of the facts which surround the loss of business to the private sector of our economy.

I would further like to add, Mr. Chairman, that I have seen representatives in the audience of our participants, and if you have any questions I am sure that they or I would be happy to answer you.

Chairman DOUGLAS. Thank you, Mr. Bergman. We appreciate this.

I am going to say that any pertinent letters or statements which may be submitted will also be printed in the record of the hearing so if it is desired to have specific statements included that will be done.

(Material pertinent to the preceding testimony, subsequently supplied, appears in app. 2, p. 287.)

Mr. BERGMAN. Thank you, sir.

Chairman DOUGLAS. Thank you very much, Mr. Bergman.

(Whereupon at 4:30 p.m. the committee was recessed subject to call.)

# APPENDIXES

## APPENDIX 1

### PROCUREMENT INFORMATION CENTER

MEMORANDUM SUBMITTED IN SUPPORT OF A LETTER OF JANUARY 15, 1964, ADDRESSED TO THE PRESIDENT OF THE UNITED STATES<sup>1</sup> ON THE FUNCTION, NEED, AND VALUE OF A PROCUREMENT INFORMATION CENTER IN WASHINGTON, D.C.

#### HISTORICAL BACKGROUND

At the end of World War I, President Woodrow Wilson set up in 1919 a Procurement Information Office under the aegis of the War Department, then referred to as "purchase information."

This Office, displaying all Army invitations to bid, bid tabulations, and awards, was located in the Munitions Building on Constitution Avenue and operated during the following 20 years initially with a staff of seven to eight employees which was subsequently somewhat reduced in size.

With the advent of World War II and upon the erection of the Pentagon, this Office was transferred to the latter building, was temporarily suspended after the United States entry in the war, and reactivated upon cessation of hostilities.

When the Army Air Force assumed its own status in 1949 under the Department of the Air Force, invitations to bid, tabulations, and awards of all Air Force installations were likewise displayed at this office, having been properly named in the meantime as Procurement Information Center.

Around 1952, this Center was transferred to the Old Post Office Building on Pennsylvania Avenue, still remaining under the jurisdiction of the Department of the Army, although continuing to display both Army and Air Force procurements.

In the years following, the office was patronized by frequently calling, out-of-town manufacturers, Washington representatives, and a multitude of bid services, publications, bonding companies, congressional offices, and potential subcontractors, as well as officials from various Government departments, particularly the Wage and Hour and Public Contracts Divisions of the Department of Labor charged with the enforcement of the Walsh-Healey Act.

In general, the operation of this Center during these years appeared to be well managed and found full acclaim by industry and the users of the Center.

However, eventually the gloomy and cobwebbed character of the environment of the quite dilapidated building, the lack of proper supervision of the personnel—some military officers seemingly considered their assignment to this office as a punitive tour of duty, spending a good deal of their time at the Pentagon—a gradually increasing disharmony among the staff of five employees (subsequently reduced to three) with resultant lower morale affected seriously the proper operation and usefulness of this Center.

All too often a manufacturer making a special trip to Washington found to his dismay that the information he sought was not available, either misfiled or still in one of the unopened mailbags, often lying around for days—and left emptyhanded.

Thus, it came as no surprise when the Department of Defense announced on April 19, 1962, that it proposed to discontinue the Center.

In the ensuing months because of considerable apprehension expressed by manufacturers (small, medium, and large), the Department of Commerce and the Small Business Administration expressed an interest in taking over the

---

<sup>1</sup> Prepared at the request of William D. Carey, Executive Assistant Director, Bureau of the Budget, Executive Offices of the President, Washington, D.C.

Center and, toward the end of July 1962, the Small Business Administration was directed—pending suggested further studies—to take over its operation in the interim period.

After assuming on August 1, 1962, temporarily the function of the Center, renamed then as Procurement Advisory Center and later on transferring it to the Lafayette Building on Vermont Avenue, having enlarged its staff in the meantime by increasing its annual budget to approximately \$75,000, the Administrator of the Small Business Administration, Mr. Eugene P. Foley, informed a limited number of direct users by letter of December 31, 1963—without any public announcement—of his intention to abandon the Center by January 31, 1964, in the interest of economy.

However, upon intervention by the Senate Committee on Government Operations, the Administrator was asked to continue this Center's operation for 60 days.

#### BUDGET

The Center is in essence a reference library which does not need any high-caliber employees in the GS-13 or GS-15 range; but in the opinion of the users, the expense of its operation could be held to a fraction of its present cost, and it is believed that three clerical employees would be sufficient to staff the Center properly. Thus, an expense of \$15,000 to \$25,000 at the most would be incurred. Certainly, it would not be necessary to spend \$75,000 to operate the Center.

#### SCOPE OF INFORMATION

While the Center displayed originally for a period of at least 1 year, after opening date, all Army and Air Force invitations to bid, bid tabulations, and awards of procurements in excess of \$2,500, the Small Business Administration caused two changes in the armed services procurement regulations as follows:

(1) ASPR, section 1-1002(b): "A copy of each unclassified request for proposals (including letter solicitations) issued in the United States required to be publicized in the Commerce Business Daily, a copy of each unclassified invitation for bids issued in the United States, and a copy of every amendment to each such request for proposals or invitation for bids, shall be sent directly, on the date issued, to the Procurement Advisory Center, Small Business Administration, 811 Vermont Avenue NW., Washington, D.C. This Center is maintained to provide information to all persons having an interest in Government procurement opportunities."

(2) ASPR, section 2-403(b): "A copy of the final abstract covering invitations for bids required to be publicized in the Commerce Business Daily shall be sent to the Small Business Advisory Center, Small Business Administration, 811 Vermont Avenue NW., Washington, D.C., except in the case of procurements for coal or petroleum made by the Defense Petroleum Supply Center."

This meant that Navy invitations to bid and Navy bid tabulations were added; however, the military installations were no longer required to send to the Center bid abstracts on invitations for less than \$10,000 as under ASPR, section 1-1003.1 only procurements in excess of \$10,000 had to be synopsisized and published in the Commerce Business Daily.

The Small Business Administration decided further to discard all invitations to bid as soon as the bid opening thereof had passed and to keep bid tabulations only for a period of 6 months.

Although the Small Business Administration attempted to simplify the flow of work at the Center and provide better working conditions, some of the foregoing operational changes made it frustrating for a manufacturer, occasionally visiting this Center, to discern what item 2 or 3 on a tabulation meant, no longer having access to the basic invitation to bid explaining the meaning of each item, and the usefulness of this Center is somehow impaired by the unnecessary curtailment of the records.

#### NEED FOR DISPLAY OF INFORMATION

It should be borne in mind that the need for the display of this information is established by the beneficiary users thereof. These are not, as a rule, casual bidders, but "seasoned Government contractors." By "seasoned contractors" those manufacturers are meant who have held numerous Government contracts over a period of years, are familiar with the intricate Government specifications and their interpretation, know exactly how to perform under a Government con-

tract, are aware of the unusually tight delivery schedules, and are able to meet the rigid Government inspections. It is important to recognize that it has become a necessity for these types of bidders to gain convenient and ready access to bid results in order to enable them to bid successfully on Government procurements.

(a) *Invitations to bid*

This Center is called upon to display all invitations to bid for military installations covering procurements in excess of \$2,500.

It has been stated that this is a duplication of effort and that the same information is published either in the *Commerce Business Daily*<sup>2</sup> or that a copy of each invitation to bid can be found on bulletin boards at the issuing installations. This statement is erroneous and misleading.

The *Commerce Business Daily*, in accordance with Public Law 87-305, partially motivated by the practical limitation of this publication, does not publish, among others,

- (a) military procurements under \$10,000, and
- (b) procurements required to be placed in less than 15 days.

Many manufacturers, small, medium, and even large manufacturers, like to bid on \$7,000, \$8,000, and \$9,000 procurements. Of course, a manufacturer is likewise interested in bidding on procurements where the timespan between the issue and opening date is less than 15 days as long as he is able to prepare and submit his bid in time.

According to the Department of Defense, these companies would not have to worry about being invited to bid on these procurements if they had properly made application to have their names included on the bidders' mailing list.

Past experience has shown that bidders' mailing lists have proven to be most inadequate. For instance, as regards frequently procured metal fabricated items of innumerable shapes and forms, it is simply impossible that invitations are being mailed to each qualified bidder on the bidders' mailing list, and many installations have adopted the practice of a so-called rotating bidders mailing list. This means that only a certain segment of the prospective bidders on the bidders' mailing list is receiving an invitation to bid.

In many specialized areas, the bidders' mailing list may contain the names of 150 to 200 bidders, and still only the same 10 to 12 supplies are usually qualifying for the award. Nevertheless, some of these 10 to 12 concerns, normally in the low-bid brackets, may not receive an invitation because of the rotating cycle, with the result that the Government is paying higher prices. However, these suppliers, knowledgeable of this procurement through the Information Center, may bid nonetheless and be successful. For instance, this is true for the wire fabric and fencing industry.

The argument that a copy of each invitation is placed on the bulletin board of the issuing installation is futile as no manufacturer can afford to continuously travel throughout the country and make a daily record of invitations to bid displayed in this manner.

Frequently a manufacturer needs further information as regards certain procurements of interest published in the *Commerce Business Daily*, e.g., as to specifications, delivery dates, packaging, etc., and again he may find the answer readily at the Center at which the invitation to bid may be inspected.

Otherwise a bidder would have to write for bid forms or bidding details to individual military installations. Empirically, this method has not proven to be successful as often a reply is received: "Bid forms are exhausted," or bid forms arrive too late, or the procurement officer is too late in replying to the

<sup>2</sup> Clipping from *Commerce Business Daily* :

"The *Commerce Business Daily*. \* \* \* is published to help American business firms keep abreast of Federal Government procurement and general contracting activity. It lists (by commodity and service) Government procurement invitations, subcontracting leads, contract awards, and sales of surplus property. The *Daily* also lists appropriate foreign business opportunities.

"In 1961, Congress directed the Secretary of Commerce to publish in the *Daily* all military procurement actions of \$10,000 or more, and all civilian procurements of \$5,000 or more. Excepted are procurements that are: (1) classified for national security; (2) perishable subsistence supplies; (3) certain utility services; (4) required to be placed in less than 15 days; (5) placed under existing contracts; (6) made from another Government agency; (7) personal professional services; (8) services from educational institutions; (9) made only from foreign sources; and (10) those that are not to be given advance publicity.

"Other listings, such as the foreign business opportunities, are included only to promote and stimulate our domestic economy."

inquiry. Potential subcontractors, for instance for a roofing or flooring contract, may scan the invitations to bid for subcontract opportunities. Publications, such as Dodge reports, servicing over 60,000 subscribers, patronize the Center repeatedly.

(b) *Bid tabulations or abstracts of bids*

The Department of Defense has indicated that bidders' requirements are amply met by publication in the Commerce Business Daily of awards in excess of \$25,000, and that it would suffice the needs of a bidder that a complete bid abstract or bid tabulation is available for inspection at the procuring installation.

A "seasoned contractor" who is bidding frequently on Government procurements usually makes it his practice to gain access to a tabulation of bids at the opening of bids or as soon as possible thereafter. In the majority of cases, such "seasoned bidders" require this information for various purposes:

(a) To evaluate to what extent a manufacturer may bid on subsequent procurements without overcommitting his production facilities. Usually the award on the first procurement is not available for 30 to 60 days after opening and the bidder is committed until his option to the Government expires.

(b) To make tentative arrangements, if low bidder, to be prepared for the award of a contract with frequently short delivery terms.

(c) To protect his interest by exercising his right to challenge the low bid if the low bidder has not bid in accordance with the specifications.

(d) In order to readjust his bid prices upon reprourement of the same item at a later stage. Knowing the competitive bid structure, bidders have been able to save the Government millions of dollars by taking advantage of seasonal set-backs and at times filling their plants with Government contracts at a low-profit margin or even at a break-even point in order to obviate partial shutdowns of their plants, dismissal of skilled employees, and resultant economic repercussions.

(e) To have at a central point all military bid abstracts readily accessible and available as it would be physically impossible and too expensive for the average bidder to travel at great expense and loss of time to remotely located military installations in order to secure the desired information.

Contrary to allegations by the Small Business Administration, the information displayed at the Procurement Advisory Center is not available at any of its 40 field installations.

#### BENEFICIARY USERS OF THE PROCUREMENT INFORMATION CENTER

Much weight has been given to an assumed limited marginal user activity of this Center.

When speaking about the users of the Procurement Information Center—those are the direct users or visitors coming every day as well as the beneficiary users which shall be explained a little further below—one should remember that the main users, including the beneficiary users, are "seasoned manufacturers."

It is hard to put into percentage form how many manufacturers in the country are actually bidding on Government procurements regularly, and statistics probably would show that only a minor percentage of manufacturers are bidding on Government procurements because of the many strict conditions adhering to Government contracts.

There has been much talk about spreading competition and inviting more concerns in to bid on Government procurements; but as a rule, it is found, when studying procurement records, that almost the same firms are bidding year in and year out, that new firms come in from time to time, but that most of these soon either because of frustration, alienation, or disappointment refrain from further bidding.

From a contracting officer's standpoint, of course a "seasoned contractor" who has been bidding before and knows exactly the demands of the Government is always more welcome to the Government, and contract failures are held to a minimum if the Government deals with "seasoned contractors."

The "seasoned contractors" are the bulk of the beneficiary users of the Center and learn of the information displayed there directly and through various media.

Whether a manufacturer develops the bid information, required by him by personal visit, by means of a publication, or by engaging a bid service would be his concern as long as he is convinced of the value of the centrally available and readily accessible information obtained from the Center.

Much has been said that the Government should not furnish procurement information to private publishers for paid distribution to their subscribers.

However, all newspapers in the country carry daily releases by the Department of Defense.

Moreover, if it may be inopportune for a manufacturer to travel, whenever need arises, to the Center and he chooses to employ an agent, a Western Union messenger, or a bid service to copy the desired information, the Government is still furnishing the information to him as the principal beneficiary user.

Thus, to repeat, the actual beneficiary users of the Center are the Government bidders and contractors who have been satisfied in the past with the dissemination of procurement information by means of the Center.

In analyzing the daily visitors, the following categories appear as direct regular users of the Center:

- (1) Publications dealing with Government procurements.
- (2) Manufacturers' agents.
- (3) Bid services.
- (4) Industry associations.
- (5) Government contractors.
- (6) Congressional offices.
- (7) Bonding companies.
- (8) Federal Government agencies.
- (9) Firms seeking subcontract work.

WAYS IN WHICH INFORMATION AVAILABLE AT PROCUREMENT INFORMATION CENTER<sup>a</sup>  
IS USED

(1) *Publications*

There are a number of publications dealing exclusively with Government procurement activities which serve a most useful purpose. Evidence of this is the fact that a great percentage of regular Government bidders subscribe to at least one of these publications in addition to the Commerce Business Daily. These publishers maintain full-time employees at the Procurement Information Center on a daily basis who report to them all available information which is published and distributed widely throughout the country to many thousands of interested bidders. This gives the Government buying agencies widest distribution of information concerning its proposed procurements and, as a result, an agency quite frequently will receive a low bid and award a contract to a company that otherwise may never have been aware of the procurement. This invariably saves Government funds, frequently substantial sums.

(2) *Manufacturers agents*

There are numerous recognized representatives in Washington who regularly use the facilities of the Center for the purpose of providing their home offices with all types of information in much the same manner as bid services, as described below.

(3) *Bid services*

The bid services are specialty service organizations that are quite necessary from the standpoint of Government contractors and also save Government contracting officers numerous telephone inquiries and correspondence by supplying publicly available information to bidders which these bidders otherwise would attempt to obtain directly from contracting officers.

When a company executive goes to the trouble and expense of computing and submitting a bid, he most certainly is anxious to have information as soon after the bid opening as possible as to the various bids submitted. The Government contracting officers simply do not have adequate personnel to enable them to give information by telephone or by answering letters as to the bid results to all of the many bidders. Bid services curtail to a great extent telephone calls and cumbersome correspondence of this type for the contracting officers.

Companies, frequently receiving limited information as to a pending procurement either as a result of it being published in Commerce Business Daily or through some other means, require additional detailed data which can only be gleaned from the actual bid form in order to determine if they can actually bid. These companies may employ a Washington bid service in order to have the bid form checked at the Center and obtain answers to their questions. Information so gained enables them to immediately determine if a bid is to be submitted, and if so, to start work on the computation of their bid without

<sup>a</sup> Detailed case histories to be furnished upon request.

having to await receipt of bid forms from the issuing agency. It normally requires 10 days or more to receive bid forms after these have been requested, and many times the resultant loss of working time would make it impossible for a company to compute and submit its bid in time.

Bid services also screen the daily posted invitations to bid at this Center and report back to their principals, particularly procurements under \$10,000 and those having a close opening date. Under a Comptroller General decision a bidder may submit a valid bid in letter form, and through such timely notifications of impending procurements, otherwise unknown to a manufacturer, the Government has saved in the past many thousands of dollars where the ensuing bid was found to be low and responsive.

Bid services also copy at the request of manufacturers bid abstracts and awards, particularly sent in from faraway, less accessible installations.

If the Commerce Business Daily would publish all procurement actions over and under \$10,000, its size would be tripled as the procurement actions under \$10,000 are estimated to represent 50 to 60 percent alone of those over \$10,000, and the usually preoccupied small business executive would simply not have the time to read through such an unwieldy instrument.

#### *(4) Industry associations*

Many associations distribute to their members information as to Government procurement activities. The majority of such information is obtained at the Center either through their own employees or through arrangements with bid services.

#### *(5) Government contractors*

Company executives frequently call at the Center in order to look up answers to some specific question or many times they are merely seeking general information concerning Government procurements.

#### *(6) Congressional offices*

The Center is quite valuable to the congressional offices as it is a very convenient place for them to obtain prompt answers concerning problems which are brought to them by constituents concerning Government procurements.

#### *(7) Bonding companies*

Certain Government procurements, particularly those of a construction nature, require the submission of a bid bond. The bonding companies have an interest in keeping abreast of the issuance of invitations to bid requiring bid bonds as they want to write these bonds. After they issue a bid bond, it is then their procedure, as a service function, to follow up and render a report to the bonded companies, giving information as to the bid results. Bonding companies rely heavily on the Center for this type of information.

#### *(8) Federal Government agencies*

In numerous instances over the years, Federal Government agencies and State governments have used the information available at the Center. The use is normally in connection with the enforcement of some law. As an example, the Department of Labor has used the Center in the past many times in connection with gaining information for enforcement of the Walsh-Healey Act. This Department would also use the Center in connection with gathering statistics for reports needed for hearings on the determination of minimum wages in certain industries to be paid by concerns holding Government contracts over \$10,000.

#### *(9) Potential subcontractors*

Information available at the Center is probably more important to subcontractors than anyone else. First of all, a subcontractor must have detailed information to enable him to determine the various component parts required to manufacture the prime item and upon award must have prompt information as to the name of the successful bidder for purposes of negotiating a subcontract.

#### NUMBER OF BENEFICIARY USERS

In order to realize the large number of beneficiary users which derive information from the Center, a brief breakdown of the various publications and bid services may be helpful:



*A. Publications*

(a) "Dodge Reports": Published by the F. W. Dodge Corp., a subsidiary of McGraw-Hill Publishing Co., New York, N.Y. The Dodge Reports are subscribed to by over 60,000 concerns in the country, and the Visitors' Register reflects the daily visit of one of their staff members. Over 2 million small individual report slips are being sent out each day to its subscribers. Dodge Reports use the Center to supplement the information compiled by their field reporters and as a doublecheck on any Government building projects which may have been missed. Also the usually compendious construction bid forms are analyzed for certain roofing, flooring, or other subcontracting phases.

(b) "The Blue Reports," Washington, D.C.: "The Blue Reports" are similar to the "Dodge Reports" and are published out of Washington, D.C., for the past 38 years for the construction trade.

(c) "Government Advertiser": This, although a private publication, was the original publication advertising Government procurements. The "Government Advertiser" is now in its 82d year, and anyone at home in the procurement field knows the tremendous inroads which have been made in the course of the years through publishing of invitations to bid in the "Government Advertiser."

(d) "Federal Procurements and Subcontracts," Long Island, N.Y.: This publication has been using this Center steadily and is reported to have several thousand subscribers.

(e) "Government Service Contracts Bulletin," published by Arndt & Day: This bulletin is distributed to numerous bidders whose primary interest is in custodial services. This information is substantially gleaned from the Center as frequently the custodial contracts for individual buildings do not run over \$10,000, but may very well add up to \$50,000 or \$100,000 for an entire military compound.

(f) "Timber Products Digest": This publication is addressed primarily to lumbermen all over the country and has been successfully in operation for many years.

(g) "Bidders Bulletin Board," published by Public Service Bureau, Washington, D.C. This publication lists, among others, all Army and Air Force procurements over \$2,500.

(h) Others.

*B. Bid services*

(a) Arndt & Day, Washington, D.C., serving approximately 13,000 manufacturers throughout the United States, having a staff of 10 employees and 80 field reporters at major procurement centers.

(b) Benton Reporting Service, Philadelphia, Pa.

(c) J. L. Caillouet & Co., Washington, D.C.

(d) Public Service Bureau, Washington, D.C.

(e) Woodside & Murphy Co., Arlington, Va., and others.

## SUMMARY

The vast number of beneficiary users of this Center, conservatively estimated to be 80,000 manufacturers, of which many have registered their strong desire for the continuous maintenance of a centrally located Procurement Information Center, and which, as emphasized in the foregoing, are primarily "seasoned Government contractors," depend in their successful bidding on future Government procurements on the valuable information found at the Procurement Information Center.

## RECOMMENDATIONS

(1) While the Center to this date has only displayed military procurements, it would be highly desirable if it could be enlarged to comprise all Federal procurements.

(2) In our opinion, such a Center should be set up within a Government department which provides a sympathetic climate to all of its beneficiary users, composed of small, medium and large concerns as well.

(3) An announcement on the masthead of the "Commerce Business Daily" should call attention to the Center, its location and functions.

(4) Serious thought should be given to accord legislative status to a Procurement Information Center.

Respectfully submitted.

ARNDT & DAY,  
ERNST-THEODORE ARNDT.

SMALL BUSINESS ADMINISTRATION,  
 Washington, D.C., Wednesday, August 1, 1962.

Details on proposed national purchases by the Army and Air Force, including invitations for bids, are now available at a "onestop" information center operated by the Small Business Administration, John E. Horne, SBA Administrator, announced today.

Effective today, SBA assumed direction of the operations of the Washington procurement information center located in the Old Post Office Building, 12th and Pennsylvania Avenue NW., which was formerly operated by the Army and Air Force. Plans call for transfer of the center to the Lafayette Building, 811 Vermont Avenue NW., as soon as possible, Mr. Horne said.

Irving Maness, SBA Deputy Administrator for Procurement and Technical Assistance, who will supervise operations of the facility, said that SBA plans to expand the functions of the center to include dissemination of information on proposed national purchases to be made by other agencies, both military and civilian.

"Since 1949, the procurement information center for Army and Air Force purchases has provided valuable assistance to many small firms interested in participating in Government works," Mr. Maness said.

"By expanding its functions, we hope that many additional small businesses will take advantage of the information available at the center, and thus increase the volume of contracts awarded to small businesses.

"All procurement data received at the center will be displayed until opening dates of the invitations. In addition to information on specific proposed purchases, other services such as procurement counseling, subcontracting opportunities, and details on sales of surplus Government property, will also be made available at the 'one stop' center."

Interested firms may utilize the facility in person, by phone or by mail. Inquiries should be addressed to Small Business Administration, Procurement Advisory Center, Washington, D.C.

MAY 14, 1964.

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

DEAR MR. STAATS: Senator Javits has requested that you furnish for the record answers to the following questions raised during the hearings held by the Subcommittee on Defense Procurement on April 21.

1. Pursuant to the testimony of Senator J. Glenn Beall before this committee on Thursday, April 16, concerning the preservation of the Procurement Information Center, temporarily administered by the Small Business Administration as Advisory Service Center, I should like to ask the following questions of the Bureau of the Budget.

Recently, by letter of March 20, 1964, the Bureau of the Budget informed the Senate Committee on Government Operations, "that the Small Business Administration emphasized in its report to the Bureau the limited scope of the procurement activity covered by the Small Business Advisory Service Center—generally the same military transactions covered by the Commerce Business Daily."

I have been advised by interested manufacturers that the Commerce Business Daily has listed 13 procurement transactions from the Navy Electronics Supply Office at Great Lakes, Ill., during the period of April 13 to 24, inclusive, yet during the same period the Service Center actually received 88 transactions from the same installation.

Similarly, I have been advised that during the same period the Commerce Business Daily carried only 81 procurements issued by the Aviation Supply Office in Philadelphia, Pa., whereas the Center displayed 136 actions. Would you comment on this situation?

2. Is it your belief that the placing of a company's name on a bidders' list assures the firm of receiving all invitations for bids?

3. Is it true that, from time to time, military agencies "rotate" their bidders' lists; i.e., only issue invitations to a specific group of firms listed?

4. Would you provide information as to what percentage of invitations to bid are currently synopsized in the Commerce Business Daily with respect to the Army, Navy, and Air Force?

5. Is it true that the Commerce Business Daily does not publish information on:

- (a) Any military procurements under \$10,000 or procurements for
- (b) Perishable subsistence supplies,
- (c) Certain utility services:
- (d) Required to be placed in less than 15 days;
- (e) Personal professional services?

Since procurements falling within the above categories make up a great number of procurement transactions, how might manufacturers be made aware of these transactions?

6. As revealed in Senate Government Operations memorandum, 88-2-7, dated February 3, 1964, the Director of Small Business Policy, Office of the Assistant Secretary of Defense, stated that forthcoming procurements may be posted on bid boards of each issuing installation. Is it the Bureau's opinion that this method of distributing information may be of value to manufacturers who are located outside of a 15-mile radius of the installation?

7. In addition to the initial press release, SBA No. 1148 of August 1, 1962, copy of which is hereby submitted to you, has the Small Business Administration given any publicity to this Center?

8. In the Bureau of the Budget's letter to the Senate Government Operations Committee of March 20, 1964, it is stated that construction procurements are restricted to a relatively few military procurement offices. Would you provide information with respect to whether this is also true with regard to invitations to bid for construction and related trades, such as for additional buildings, building modifications, for cementing and paving roads and airport runways, and various maintenance repairs?

9. In order to foster competition and enable a bidder to underbid a competitor, it would seem to be important for him to know the exact unit prices of his competition. Is it true that awards published in the Commerce Business Daily provide only a summary of total contract prices for all items, and a bidder, by reading the Commerce Business Daily, cannot discern the individual unit prices offered by his competitors?

10. Has the interest of bidders been expressed to you concerning the desirability of having a place of convenient access at which information is available on bid abstracts on formally advertised invitations under circumstances where this information is not contained in the Commerce Business Daily?

11. In view of the foregoing, would you comment with respect to your views on the meritorious aspects of a centrally located Procurement Information Center at which all invitations for bids, bid abstracts, and awards are accessible to the public?

It would be appreciated if your answers were made available by Monday, May 18.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

---

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., May 29, 1964.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
Congress of the United States,  
Washington, D.C.*

DEAR MR. CHAIRMAN: This will reply to your letter of May 14, 1964, in which you requested that we furnish answers to questions raised by Senator Javits concerning the closing of the Small Business Advisory Service Center.

The answers to these questions are contained in the enclosure to this letter.

Sincerely,

KERMIT GORDON, *Director.*

ANSWERS TO QUESTIONS RAISED BY SENATOR JAVITS CONCERNING CLOSING  
OF SMALL BUSINESS ADVISORY SERVICE CENTER

Question. Pursuant to the testimony of Senator J. Glenn Beall before this committee on Thursday, April 16, concerning the preservation of the Procurement Information Center, temporarily administered by the Small Business Ad-

ministration as Advisory Service Center, I should like to ask the following questions of the Bureau of the Budget.

Recently, by letter of March 20, 1964, the Bureau of the Budget informed the Senate Committee on Government Operations, "that the Small Business Administration emphasized in its report to the Bureau the limited scope of the procurement activity covered by the Small Business Advisory Service Center—generally the same military transactions covered by the Commerce Business Daily."

I have been advised by interested manufacturers that the Commerce Business Daily has listed 13 procurement transactions from the Navy Electronics Supply Office at Great Lakes, Ill., during the period of April 13 to 24, inclusive, yet during the same period the Service Center actually received 88 transactions from the same installation.

Similarly, I have been advised that during the same period the Commerce Business Daily carried only 81 procurements issued by the Aviation Supply Office in Philadelphia, Pa., whereas the Center displayed 136 actions. Would you comment on this situation?

Answer. We have looked into the two cases mentioned above and find that the offices were transmitting some additional documents to the Advisory Service Center which were not actually required by the instructions affecting all procurement installations.

Question. Is it your belief that the placing of a company's name on a bidders' list assures the firm of receiving all invitations for bids?

Answer. The placing of a company's name on a bidder's list will not assure that the firm will receive all invitations for bids. We would like to emphasize, however, that the objective of the bidders' list procedure is to give as many qualified bidders as possible a reasonable opportunity to bid on procurement offerings. Bidders' lists may contain as many as a thousand names and there is a question as to the desirability or necessity of sending an invitation to each name on the list on each offering. This is especially true in those instances where the value of the total procurement is relatively small. In each case it is the responsibility of the procurement office to assure that there is adequate competition in the bidding. However, any company which learns of an offering through the Commerce Business Daily or other source may always request a bid set from the procurement office.

Question. Is it true that from time to time, military agencies "rotate" their bidders' lists, i.e., only issue invitations to a specific group of firms listed?

Answer. Military agencies do, from time to time, issue invitations to a portion of the firms contained in a bidders' list. As noted above, the objective of the bidders' list procedure is to give as many qualified bidders as possible a reasonable opportunity to bid on procurement offerings. Procurement agencies have been criticized for sending bid sets to an excessive number of companies, as an unwarranted expenditure of funds. Under the rotation technique, every firm on the bidders' list is given an invitation over a specific period of time. By following the Commerce Business Daily, any firm, however, can obtain an invitation for bid.

Question. Would you provide information as to what percentage of invitations to bid are currently synopsized in the Commerce Business Daily with respect to the Army, Navy, and Air Force?

Answer. Although the Department of Defense does not maintain statistics by military service on the percentage of invitations to bid which were synopsized in the Commerce Business Daily, it has provided us with data which produces a rough total figure. In fiscal year 1963 there was a total of approximately \$3,175 million formally advertised military prime contract transactions. This total includes transactions of \$10,000 or more and excludes intragovernmental procurement, work outside the United States, and awards to educational and nonprofit institutions. Of this total, approximately \$2,678,806,000 or 84 percent was synopsized in the Commerce Business Daily. An unknown amount of the portion not synopsized represented calls and delivery orders against formally advertised open end contracts which were synopsized.

Question. Is it true that the Commerce Business Daily does not publish information on:

- (a) Any military procurements under \$10,000 or procurements for
- (b) Perishable subsistence supplies,
- (c) Certain utility services:
- (d) Required to be placed in less than 15 days;
- (e) Personal professional services?

Since procurements falling within the above categories make up a great number of procurement transactions, how might manufacturers be made aware of these transactions?

Answer. The Commerce Business Daily does not publish information on the categories noted above. The Armed Services Procurement Regulation exempts these categories from publication for various reasons. For example, because of their unique characteristics, perishable subsistence supplies and utility services are obtained primarily in the local market area, and personal professional services are obtained primarily through negotiated procurements. Interested manufacturers can learn of these transactions through having their names placed on appropriate bidders' lists.

Questions. As revealed in Senate Government Operations memorandum, 88-2-7, dated February 3, 1964, the Director of Small Business Policy, Office of the Assistant Secretary of Defense, stated that forthcoming procurements may be posted on bid boards of each issuing installation. Is it the Bureau's opinion that this method of distributing information may be of value to manufacturers who are located outside of a 15-mile radius of the installation?

Answer. In his letter of March 13, 1964, the Director of Small Business Policy listed three methods of informing business concerns of forthcoming procurements—by mail through bidders' lists, publication of a synopsis in the Commerce Business Daily, and posting invitations for bids at the issuing installation. The latter device can be helpful to those companies interested in a particular procurement center since their own personnel may have occasion to visit it or they may have representatives who can take off the information periodically.

Question. In addition to the initial press release, SBA No. 1148 of August 1, 1962, copy of which is hereby submitted to you, has the Small Business Administration given any publicity to this center?

Answer. The procurement advisory activity which was taken over from the Department of Defense was well known in procurement circles. The Small Business Administration believed that with the interest aroused by the transfer, the center had adequate publicity. After conclusions are developed from our study of bid abstract information, we will be able to give consideration to publicity through the Commerce Business Daily or otherwise.

Question. In the Bureau of the Budget's letter to the Senate Government Operations Committee of March 20, 1964, it is stated that construction procurements are restricted to a relatively few military procurement offices. Would you provide information with respect to whether this is also true with regard to invitations to bid for construction and related trades, such as for additional buildings, building modifications, for cementing and paving roads and airport runways, and various maintenance repairs?

Answer. We understand that procurement of major construction in the United States such as additional buildings, building modifications, paved roads, and airport runways, is handled by the Navy Bureau of Yards and Docks and its field district public works officers and by the Corps of Engineers and its district engineers. The Corps of Engineers generally handles construction for the Air Force. Procurement of minor construction and maintenance repairs is handled by post engineers and local public works officers. The latter procurements tend to attract strong local area competition.

Question. In order to foster competition and enable a bidder to underbid a competitor, it would seem to be important for him to know the exact unit prices of his competition. Is it true that awards published in the Commerce Business Daily provide only a summary of total contract prices for all items, and a bidder, by reading the Commerce Business Daily, cannot discern the individual unit prices offered by his competitors?

Answer. The Commerce Business Daily award information does not contain individual unit prices of all competitors. The Bureau is currently conducting a study of the availability of bid abstract information.

Question. Has the interest of bidders been expressed to you concerning the desirability of having a place of convenient access at which information is available on bid abstracts on formally advertised invitations under circumstances where this information is not contained in the Commerce Business Daily?

Answer. The Bureau has received a number of letters from bidders and Washington bid services favoring continuation of the Advisory Service Center. While bid invitations were mentioned, the correspondence appeared to place greater weight on the value of bid abstract information. The Bureau recognizes that there is some question concerning the availability of bid abstract information and is giving this matter further study.

Question. In view of the foregoing, would you comment with respect to your views on the meritorious aspects of a centrally located procurement information center at which all invitations for bids, bid abstracts, and awards are accessible to the public?

Answer. The Bureau believes that collection of invitations for bids at a central point contributed only in a marginal way to the military procurement process. We are convinced that interested businessmen seeking procurement opportunities have found them and will continue to find them through the very substantial assistance rendered by the procurement agencies, the Small Business Administration, and the Department of Commerce. We also believe that private procurement information services will continue to assist in this effort. The Bureau is giving further study to the bid abstract activity.

MAY 1, 1964.

HON. KERMIT GORDON,  
Director, Bureau of the Budget,  
Executive Office Building, Washington, D.C.

DEAR KERMIT: Congressman Curtis has requested that you furnish for the record answers to the questions raised by Mr. Arndt in the enclosure to this letter.

It would be appreciated if your answers were made available by the end of next week.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., May 20, 1964.

HON. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
Congress of the United States,  
Washington, D.C.

DEAR MR. CHAIRMAN: This will reply to your letter of May 1, 1964, in which you requested that we furnish answers to questions raised by Mr. Arndt in his April 22 letter to Congressman Curtis concerning the closing of the Small Business Advisory Service Center.

The answers to these questions are contained in the enclosure to this letter.

Sincerely,

KERMIT GORDON, *Director.*

Enclosure.

ANSWERS TO QUESTIONS RAISED BY CONGRESSMAN CURTIS CONCERNING CLOSING OF SMALL BUSINESS ADVISORY SERVICE CENTER

Question. Senator J. Glenn Beall of Maryland testified last Thursday, April 16, 1964, to a desirability of continuing the procurement information center, operated presently as Small Business Advisory Service Center which the Small Business Administration attempts to abolish.

In this connection, I understand that you recently prepared a summary report on the merits of the continuance of this Center, and you seem to rely in your report on various statements by the Department of Defense and the Small Business Administration. I understand that this Center is supposed to display all military invitations to bid, copies of official bid abstracts as well as awards, all in excess of \$10,000. However, it has come to my knowledge that you have stated that this Center is only authorized to receive abstracts of bids in excess of \$25,000. What is your authority for this statement?

Answer. The statement that the Center is only authorized to receive abstracts of bids in excess of \$25,000 was incorrect. After a further check with the Department of Defense we have been informed that the intent of the Armed Services Procurement Regulation was to require that all abstracts of bids in excess of \$10,000 be sent to the Advisory Service Center.

Question. Is it true that if this Center is closed that the information is not available any further at any centrally located place?

Answer. Invitations for bids will not be collected at any central point if the Center is closed. The need for having all bids collected at a central point

has been questioned, however, since manufacturers and suppliers are interested in information concerning specific kinds of products which they are capable of furnishing to the Government rather than general information concerning all types of items being purchased by the Government. Businesses may be placed on the Government's bidders' lists for the products they produce and thereby receive copies of invitations for bids for these items without becoming involved in a central collection of all invitations for all products. Complete bid abstract information also will not be available if the Center is closed. As stated in the Bureau's March 20, 1964, summary report to the Senate Committee on Government Operations, further study is being made of the problem of access to information on abstracts of bids.

Question. Is it true that the Commerce Business Daily does not print in detail invitations to bid, although I understand that the Small Business Administration has taken the position that the Commerce Business Daily is covering these transactions?

Answer. An invitation for bid consists of many pages of materials, including detailed contractual terms, specifications, drawings, instructions, etc. It is not feasible to print all of this information in the Commerce Business Daily and a large part of the information is not needed for purposes of publicizing the kinds of property which the Government is in the process of purchasing. The Business Daily prints a synopsis of the invitations for bids and requests for proposals which includes a description of the items on which bids are being invited and other pertinent information. In addition, awards of all unclassified contracts of the Department of Defense in excess of \$25,000 are published in the Commerce Business Daily.

Question. Is it true that no bid tabulations or bid abstracts are published in the Commerce Business Daily, contrary to the position of the Small Business Administration and that, if the Center is closed a bidder must physically travel to military installations hundreds to thousands of miles away in order to obtain the complete information on competitive bidding? I understand that for lack of clerical help, an individual contracting officer is unable to furnish this information by telephone or in writing.

Answer. Bid tabulations and bid abstracts are not published in the Commerce Business Daily. As mentioned above, the matter of bid abstract information is being studied. In the meanwhile, this information continues to be available at the Center.

Question. Is it true that procurement conferences or clinics conducted by the Department of Defense do not provide detailed information on individual invitations to bid as issued every day as well as copies of official bid tabulations and awards?

Answer. Procurement conferences and clinics are conducted by the Department of Defense to acquaint manufacturers with products needed by the military and to help manufacturers take advantage of procurement offerings. Frequently, however, the DOD displays at the procurement clinics current invitations for bids and encourages firms to bid on them.

Question. Is it equally true that none of the 67 field offices of the Small Business Administration display all daily issued military invitations to bid in excess of \$10,000, as well as official bid abstracts and awards?

Answer. Small Business Administration field offices serve as liaison between small manufacturers and contracting offices of military procurement agencies. Offices which do have listings of procurement opportunities generally display offerings of local installations. No attempt is made at these offices to cover all procurement transactions of the military agencies.

Question. Is it true that SBA's procurement counseling and opportunity meetings for small business firms do not display daily invitations to bid, official bid abstracts and awards?

Answer. Small Business Administration procurement counseling and opportunity meetings are designed to help small businessmen obtain Government contracts. Selected current procurement opportunities are brought to the attention of those attending. Those interested in obtaining information on future offerings are given assistance in obtaining a place on appropriate bidders' lists. These meetings are not, of course, a suitable means for displaying daily procurement information.

Question. It has been repeatedly asserted by industry that this Center can be run with three employees of which one has supervisory capacity at a cost of \$25,000. How does SBA justify an expenditure of \$75,000 annually?

Answer. The estimated annual costs of maintaining the Center was \$57,000, including costs of telephone, space, postage, supplies, and equipment, as well as salary and other expenses for six full-time people and some part-time assistance. After observing the operation of the Center, we do not agree that it can be operated with three employees at a cost of \$25,000. In addition to the very substantial volume of bid information to be handled, the Center requires supervision, some stenographic assistance, provision for standby help while regular people are on leave, etc.

Question. Is it true that the Department of Commerce was most anxious to take over the operation of this Center when it was transferred a year and a half ago by the Department of Defense and that you recommended at that time to the President that the operation of this Center be transferred to the Department of Commerce rather than to the Small Business Administration? And if so, what were your reasons therefor?

Answer. In April 1962, when the Department of Defense announced that it intended to close the procurement information center because it was no longer needed, both the Department of Commerce and the Small Business Administration expressed an interest in the activity. The Bureau was interested primarily in avoiding duplication of activity and considered the desirability of locating the activity in a joint Commerce-SBA Center. It was finally decided to continue the activity on an interim basis in the SBA in order to determine its usefulness to bidders.

Question. Have you made a study of the number of formally advertised invitations issued by the various military installations in the field, or how do you support a contention that most manufacturers bid on certain classes of commodities which are purchased in quantity at a relatively few military procurement offices? I am informed, for instance, that metal fabricated items are being bought constantly most anywhere in the country depending on the individual requirements of each military base.

Answer. The statement that commodities are purchased at a relatively few military procurement offices is based upon the existing organization structure for procurement and supply management in the Department of Defense. Under that system, the various commodities and classes of supplies are assigned to inventory control points. An inventory control point is responsible for the complete management of a commodity even though it may be used in two or more of the military services. For example, the Defense Industrial Supply Center has the inventory and supply management responsibility for most items of hardware and metal products and, under a recent agreement between the DOD and the GSA, the procurement of hand tools for all of the military agencies has been assigned to GSA. It is true that some items are assigned for local procurement by each post, camp, or station when it is deemed uneconomical or infeasible to carry them in depot inventories. Procurement offerings of individual posts, camps, and stations tend to attract strong competition within a region.

Question. I would welcome your comments as to why it is felt that bid abstracts are "frequently voluminous and costly to reproduce and disseminate" whereas I am told in most cases bid abstracts do not exceed one or two pages.

Answer. The number of pages in an abstract depends upon the number of bidders responding to an invitation for bid. If only a few bidders respond, one sheet of large paper will be sufficient for the complete abstract. If many bidders respond, more pages are needed to record all of the pertinent information concerning each bid. A substantial number of bid abstracts run to several pages and some have as many as 25 pages. It is usually necessary for bid abstracts to be recorded on large size paper. These sizes cannot be reproduced on the equipment presently available in many of the offices. However, the problem of reproduction costs is part of the broader study of bid abstract information now underway.

Question. How do you expect the average businessman to obtain detailed information on an individual invitation to bid in time prior to the opening of bids as replies to inquiries, as a rule, concerning specification details are received too late by a prospective bidder to calculate and file his bid?

Answer. If the individual is on a bidders' list and receives a bid invitation he will know whom to contact for specification clarification. If he learns of the invitation through the Commerce Daily or other source he would have to make a request for the bid invitation and then, if need be, seek clarification. In either



case, clarification on specification details would have to come from the issuing office. We agree that these inquiries should be answered expeditiously. Where it is not possible to answer promptly, bid opening dates are often extended.

Question. How do you expect a bidder to obtain information on competitive bidding without being compelled to travel to the individual installation involved?

Answer. Businessmen interested in bidding are encouraged to make application to get on bidders' lists. Various Government agencies maintain extensive services to assist businessmen in finding the appropriate procurement center or centers and then assisting them to make the necessary application. As previously indicated the matter of the availability of bid abstract information is under study.

Question. Why has there not been given any publicity to this center, possibly on the masthead of the Commerce Business Daily to advise manufacturers of the availability of this center?

Answer. The center was publicized when originally opened. The major publicity effort in this general area, however, has been to acquaint manufacturers and suppliers with information pertaining to procurement of specific kinds of items. The Department of Defense, for example, has expended a great deal of effort to acquaint manufacturers with its requirements and procurement procedures. After conclusions are developed from our study of bid abstract information, we will be able to give consideration to publicity through the Commerce Business Daily or otherwise.

Question. Do you realize that most of the bidders bidding repeatedly on Government contracts, particularly in the small and medium category rely in their daily bidding on bid abstracts and awards, revealing the prices and terms of their competitor in order to bid competitively and by doing so over a period of time save the Government considerable funds?

Answer. This question relates to one aspect of the problem of availability of bid abstract information, study of which is in progress.

---

THE INSINGER MACHINE CO.,  
Philadelphia, Pa., May 5, 1964.

Senator PAUL H. DOUGLAS,  
Chairman of Joint Economic Committee,  
New Senate Office Building,  
Washington, D.C.

DEAR SENATOR DOUGLAS: We have read with interest the testimony by your good self on April 16 before the Joint Economic Committee in connection with the maintaining of the procurement information center serving small, medium, and large business alike and providing necessary information on bids, awards, and allied data.

In this regard it is certainly important that small business have access to such information which is not available generally through the Commerce Business Daily nor is it available generally through the small business offices.

This one spot seems to have more general information made available to industry than any other and we therefore urge with you that it be maintained.

It is suggested that this statement be made part of the official hearing record.

Very truly yours,

B. N. LEVENE.

---

U.S. SENATE,  
COMMITTEE ON THE JUDICIARY,  
April 21, 1964.

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

DEAR MR. CHAIRMAN: Attached is a letter from the Rector Mineral Trading Corp., pertaining to continuation of the Procurement Information Center, presently under the Small Business Administration. I understand that hearings on this matter will recess today, and would very much appreciate the insertion of the attached letter, dated April 20, 1964, in the record.

With best wishes.

Sincerely,

KENNETH B. KEATING.

RECTOR MINERAL TRADING CORP.,  
*Mount Vernon, N.Y., April 20, 1964.*

HON. KENNETH B. KEATING,  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR KEATING: You've recently been kind enough to express on our behalf your interest in the continuation of the Procurement Information Center as operated by the Department of the Army for the past 40 years in Washington, D.C., and temporarily transferred to the Small Business Administration.

The question of the abolishing of the Procurement Advisory Section of the Small Business Administration is now under study.

We have been informed that Senator J. Glenn Beall, of Maryland, testified for the Joint Economic Committee of the Senate and House and Senator Paul H. Douglas, chairman of the committee, is requesting the Bureau of the Budget to come forth with a new report.

There is a possibility that this matter will come up before the committee tomorrow, the 21st.

We'd greatly appreciate it if you would once again express your interest in the continuation of the Procurement Information Center.

We thank you for anything you can do on our behalf and remain,  
 Very truly yours,

HAROLD P. STERN,  
*Vice President.*

---

SELECT COMMITTEE ON SMALL BUSINESS,  
 HOUSE OF REPRESENTATIVES,  
*Washington, D.C., April 21, 1964.*

DEAR MR. WARD: I am forwarding the attached pursuant to a conversation today with Mr. Gewehr, who indicated that he believed it would be possible to include it in the record of the hearings on procurement which were completed today.

Congressman Roosevelt would be most grateful if this material could be placed in the record of your hearings.

Sincerely,

WENDY WALCOTT, *Secretary.*

STATEMENT OF REPRESENTATIVE JAMES ROOSEVELT BEFORE SUBCOMMITTEE ON  
 DEFENSE PROCUREMENT OF JOINT ECONOMIC COMMITTEE

Mr. Chairman, I greatly appreciate the opportunity to present testimony to your subcommittee. The matter upon which I would like to comment has been called to my attention by one of my constituents, who is a small businessman. According to him, there has been some consideration of a proposal to abolish the Advisory Service Center of the Small Business Administration.

Rather than submit testimony as to the value and importance of the services performed by the Advisory Service Center, I would like to submit for the record a letter from my constituent, Mr. John C. Inscho of Los Angeles, Calif., together with my replies to him and correspondence with the Honorable Eugene P. Foley, Administrator of the Small Business Administration.

---

HOOVER ELECTRIC CO.,  
*Los Angeles, Calif., February 27, 1964.*

Congressman JAMES ROOSEVELT,  
*House of Representatives,*  
*Washington D.C.*

DEAR CONGRESSMAN ROOSEVELT: It has come to our attention that the Senate Committee on Government Operations has under consideration a bill to abolish the Advisory Service Center of the Small Business Administration.

The proposed closing of this Center will mean that thousands of invitations to bid will remain unknown to manufacturers and small business and competition will be stifled with resultant higher prices to the Government and taxpayer. We will be unable to obtain current information as to what the Government intends to purchase, the prices previously paid, when the goods or services will be required and full particulars regarding planned procurement. This will result in precluding the submittal of competitive bids and if this serv-

ice is discontinued many small manufacturers and suppliers will be unable to obtain any information on recent bids and contract allocations which are awarded by numerous and widely scattered Government procurement offices thereby creating an undesirable blanket of secrecy relative to Government contract negotiations and awards and result in additional cost to the U.S. Government.

By centralizing the display of all Federal invitations to bid and bid results, bidders are all given an equal opportunity to know what will be required to meet competition on future bids and by making competitive bid prices available, bidders are frequently induced to underbid competitive on subsequent procurements. Thus, qualified bidders are encouraged to enter the competition and unqualified frivolous and noncompetitive contractors are informed of the reasons their bids have not been accepted and what will be required to become competitive. Millions of dollars are saved the Government by bidders underbidding each other. They can do this only by being informed of what their competitors did before.

We believe the closing of this Center will be contrary to public policy and the intent of Congress which requires the widest possible distribution of procurement information and the promotion of competition in order that all qualified businesses, particularly small business firms, will have equal opportunities to bid on Government business and thus insure that goods and services may be obtained at the least possible cost.

In view of the foregoing it is requested that your office recommend that the Advisory Service Center be continued on a permanent basis.

Thank you for your attention in this matter.

Sincerely yours,

JOHN C. INSCHO,  
*Contract Administrator.*

---

SELECT COMMITTEE ON SMALL BUSINESS,  
HOUSE OF REPRESENTATIVES OF THE UNITED STATES,  
*Washington, D.C., March 9, 1964.*

HON. EUGENE P. FOLEY,  
*Administrator, Small Business Administration,  
Washington, D.C.*

DEAR MR. FOLEY: Enclosed please find a copy of a letter I have received from my constituent, Mr. John C. Inscho of Hoover Electric Co., regarding the proposed abolition of the Advisory Service Center of the Small Business Administration.

From my dealings with many small business firms, I have seen that this office performs a most valuable function for the Nation's small business community. It is therefore my hope that this office will be retained to continue its services to the small businessmen of this country.

Sincerely yours,

JAMES ROOSEVELT,  
*Chairman, Subcommittee on Distribution.*

---

SELECT COMMITTEE ON SMALL BUSINESS,  
HOUSE OF REPRESENTATIVES OF THE UNITED STATES,  
*Washington, D.C., March 10, 1964.*

MR. JOHN C. INSCHO,  
*Contract Administrator Hoover Electric Co.,  
Los Angeles, Calif.*

DEAR MR. INSCHO: Thank you for calling my attention to the possible abolition of the Advisory Service Center of the Small Business Administration. I agree with you that this office performs a most valuable function to the Nation's small business community.

I have today written to the Honorable Eugene P. Foley, Administrator of SBA, setting forth my opposition to the abolition of the Advisory Service Center.

Sincerely yours,

JAMES ROOSEVELT,  
*Chairman, Subcommittee on Distribution.*

SMALL BUSINESS ADMINISTRATION,  
OFFICE OF THE ADMINISTRATOR,  
Washington, D.C., March 18, 1964.

HON. JAMES ROOSEVELT,  
*Chairman, Subcommittee on Distribution,  
Select Committee on Small Business,  
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN ROOSEVELT: Thank you for your letter of March 9, 1964, on behalf of the Hoover Electric Co., Los Angeles, Calif., concerning the discontinuance of the Small Business Advisory Service Center as an economy measure.

The subject of continuance of the Center is now under reconsideration. During this time, the present service to its patrons is being continued.

With kind regards, I am,  
Sincerely,

EUGENE P. FOLEY, *Administrator.*

---

SELECT COMMITTEE ON SMALL BUSINESS,  
HOUSE OF REPRESENTATIVES OF THE UNITED STATES,  
Washington, D.C., March 23, 1964.

MR. JOHN C. INSCHO,  
*Contract Administrator,  
Hoover Electric Co., Los Angeles, Calif.*

DEAR MR. INSCHO: Enclosed please find a copy of a reply I have received from the Honorable Eugene P. Foley, Administrator of the Small Business Administration, in response to my letter urging the continuance of the Small Business Advisory Service Center.

You will note that the matter is being reconsidered and that service will be continued in the interim.

If I may be of further service at any time, please feel free to call upon me.

Sincerely yours,

JAMES ROOSEVELT,  
*Chairman, Subcommittee on Distribution.*

---

CONTINENTAL DRILL CORP.,  
Chicago, Ill., February 17, 1964.

HON. PAUL H. DOUGLAS,  
*U.S. Senate,  
Washington, D.C.*

DEAR SENATOR DOUGLAS: First of all let me thank you for being kind enough to see Mr. Arndt and the writer when I was in Washington, Wednesday, February 5. Your interest and help in the preservation of the Procurement Information Center, the operation of which was temporarily assumed by the Small Business Administration, is indeed very much appreciated.

For about 7 years we have been a prime contractor for the General Services Administration in their twist drill requirements. For about the same number of years we have also supplied other agencies of the U.S. Government with their twist drill requirements, and altogether we have supplied to the U.S. Government more twist drills than all other drill manufacturers combined.

The record will show that when we first began to bid on the Government requirements the price of twist drills as sold to the American Government was considerably higher than the prices which are available to the Government today. There is no question in our minds, and I am sure that verification of this statement is available through any of the Government purchasing offices, that as a result of our bidding the price of twist drills to the Government has come down substantially. The Government has literally saved millions of dollars.

It is our personal opinion that the availability of bidder's prices, and other competitive information, makes it possible for each of us who are interested in bidding to carefully analyze the competitive economics and as a result, are able to intelligently bid the lowest possible price. In many instances the low level at which prices are bid is only possible because of the necessary effort to lower production costs in order to be able to show a profit at the lower levels.

The Procurement Information Center makes information available to us and other bidders easily. Without such a center it would be most difficult, if not impossible, to obtain the information which might be necessary. All interested suppliers would be bidding "blind." No category of business can be efficiently productive or successful if it does not know its competition.

Many invitations to bid, estimated to be under \$10,000, and not placed in the Commerce Business Daily, would never have come to our attention if it would not have been for the display of these invitations at the Procurement Information Center, formerly operated by the Department of Defense, and now temporarily assigned to the Small Business Administration as a Procurement Advisory Center. If such information were not easily available to us, it is possible that some of these purchases might have gone to distributors, at a much higher price, because the manufacturer would not bid direct.

Our experience with these drills alone—just one item which the Government buys—convinces us that the Government has gained this enormous saving in the procurement of this special item ever since we have been bidding on this requirement and since we have been successful obtaining the preponderant volume of this business.

This does not mean that the Government has to be satisfied with an inferior merchandise as all twist drills are rigidly controlled by the qualified products list, and each shipment is carefully inspected. As a matter of fact, during all those years of being prime supplier of twist drills to the Government, we are proud to state that there has not been one single instance of rejection of the millions of twist drills supplied by us to the Government.

To be able to bid competitively is to a great extent based on the knowledge of the previous competitive bid prices reflected in the official bid tabulations of military installations as displayed at the Procurement Information Center.

We now note that the SBA Administrator intends to close this Center which has been of such benefit to us and even greater benefit to the Government, as outlined above. We read this announcement with regret. If this Center is closed, a considerable hardship will be created because our experience has shown that it is factually impossible for us to be on the active bidders list of each military installation which may have a sudden requirement for items of our manufacture. Also we, and many other business suppliers to the Government will be unable to obtain the bid results needed by us to quickly determine the market prices on a daily basis of those items which are being offered to the Government. It becomes costly and completely uneconomical for us to send a representative to each bid opening, particularly to distant and not easily accessible installations to cover a bid opening whenever it might occur.

Accordingly, in the interest of continued saving to the U.S. Government of many millions of dollars each year—the result of informed competitive bidding—we strongly urge that the Government reconsider its decision to close the Procurement Information Center, or Procurement Advisory Center. We strongly recommended the continuation of this Center so that we, and other suppliers, may continue to obtain the information which we require to best service the Government.

Very truly yours,

M. A. LIPSCHULTZ, *Treasurer.*

---

U.S. SENATE,  
*Washington, D.C., April 24, 1964.*

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

DEAR MR. CHAIRMAN: It is my understanding that your subcommittee has recently concluded hearings at which there was consideration of the proposal to discontinue the Small Business Administration's Procurement Advisory Center.

I would appreciate it if you could have printed in that hearing record the enclosed letter I received some weeks ago from Herbert H. Burnett, technical director of Solventol Chemical Products, Inc., Romulus, Mich.

With every best wish,  
Sincerely,

PHILIP A. HART.

SOLVENTOL CHEMICAL PRODUCTS, INC.,  
*Romulus, Mich., February 27, 1964.*

Senator PHILIP A. HART,  
*Senate Office Building,  
Washington, D.C.*

DEAR SENATOR: As manufacturers of cleaning compounds of many types, we very often supply different departments of the Federal Government. Of course, we obtain this business through competitive bidding, and the purpose of this letter is to emphasize our need for sources of information pertinent to this procurement in order to compete effectively.

We note that the Small Business Administrator, the Honorable Eugene P. Foley, for reasons of economy wishes to abolish the Procurement Information Center, which has operated effectively and continuously for 45 years.

Without going into lengthy detail, we wish to register vigorous opposition to this proposal. We appreciate economy in Government, but it is our firm contention that the closing of this center would, in short order, precipitate adverse consequences to the Government as well as bidders. The comparatively small savings resulting from the closing of subject information center would be more than offset by increased cost to the Government as a direct consequence of the reduction in open competition.

Very truly yours,

HERBERT H. BURNETT, *Technical Director.*

---

THE METROPOLITAN WASHINGTON BOARD OF TRADE,  
*Washington, D.C., April 15, 1964.*

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

DEAR SENATOR DOUGLAS: We understand that your committee is considering the merits of the Advisory Service Center, a military procurement information center which the Small Business Administration announced will close.

This letter is to pass to the committee the views of the Metropolitan Washington Board of Trade on the closing of the Advisory Service Center.

Through our membership alone, manufacturers conservatively estimated at 400 benefit from the services formerly available at the Advisory Service Center. Should the center's services remain unavailable, many of the manufacturers represented through our membership would be denied ready access to invitations-to-bid, official bid tabulations, and awards—all of which are essential to the interests of these manufacturers as well as being in the interest of long-range Government economy through the broadcasting of information on competitive bid prices.

We respectfully suggest that, in the interests of competition in business and economy in Government, the Department of Commerce and, more specifically, the Businessman's Service Center, assume the operation of the Advisory Service Center.

Trusting that the committee will give our views due consideration, we are,

Very truly yours,

WILLIAM H. PRESS,  
*Executive Vice President.*

## APPENDIX 2

### GOVERNMENT COMPETITION WITH PRIVATE BUSINESS

CONSULTING ENGINEERS COUNCIL,  
Washington, D.O., May 11, 1964.

Senator PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
New Senate Office Building,  
Washington, D.C.

DEAR SENATOR DOUGLAS: We were sincerely pleased for the opportunity to be heard before the Joint Economic Committee in the testimony presented April 21 by Mr. William S. Bergman on behalf of the committee to reduce Government competition.

Consulting Engineers Council of the United States is a national federation of consulting engineers in private practice. You no doubt are familiar with many of the problems confronting private engineering firms. The Illinois and Chicago Consulting Engineers Associations have visited with you during their annual visits to Washington during the past several years and have apprised you of some of the personal hardships imposed on them and their firms by competition from Federal agencies which is being allowed to persist and grow.

I am taking this opportunity to send you a booklet prepared by Consulting Engineers Council's Private Enterprise Committee. We respectfully submit this document as supporting evidence to that which Mr. Bergman presented on our behalf as chairman of the committee. The booklet contains examples of specific cases in which consulting engineers have suffered losses of potential clients to Government agencies. In addition, the numerous advantages to the Government gained by retaining private engineers is clearly documented.

We should be pleased to work with you and your staff in any way that you might suggest in developing procedures for reducing any further proliferation of Government competition with private engineering enterprise and in making any reductions in this competition that are possible. It was our understanding with our Illinois association when they completed their recent Washington visit with you that it would be desirable for CEC and your office to work closely in attempting to find corrective solutions to this pressing problem.

Sincerely yours,

DONALD A. BUZZELL, *Executive Director.*

#### A REPORT: GOVERNMENT VERSUS CONSULTING ENGINEERS

Consulting Engineers Council, committee on private enterprise

#### FOREWORD

This report has been prepared by the Consulting Engineers Council at the request of its members, professional engineers in private practice throughout the United States, who are concerned with the inequitable competition offered them by various agencies of the Federal Government.

#### INTRODUCTION

In the past 30 years the Federal Government has brought to bear a continually increasing influence on the affairs of the private businessman. Perhaps it was the necessities of depression, and then war, which "mothered" this intervention, but now that the critical period of the "illness" has passed, the cure has become the affliction.

A great American once said, "That government governs best which governs least." If we were to judge today's Government by this standard the judgment could not be "best."

Federal regulations and controls are difficult enough for the American businessman to bear, but when you add direct competition—from Federal agencies—the burden becomes unbearable.

This report concerns itself with only one field of endeavor in which the Government has become a ruthless competitor.

Consulting engineering is a business practiced by professional engineers. As such it contributes its full share of financial support to the cost of operating the Government. Part of this contribution goes to pay the salaries of the thousands of professional engineers now in Federal employment. When the agencies employing these engineers openly solicit engineering services, which could and should be performed by private consultants, we have the unhappy picture of one businessman paying another to take his livelihood away from him.

This report contains actual provable cases in which tax-supported Government agencies have openly negotiated contracts for engineering services from other Federal, local, or State departments, or non-Government clients. If this situation is allowed to continue and expand—for expand it will as expansion seems to be Government's most important product—the State will be in business, as well as in politics, and private enterprise will face extinction.

It is not anarchy to cry, "Get the Government out of business," it is the job of every exponent of the free enterprise system to fight for just and equitable safeguards for that system. Consulting engineers are not asking for handouts or concessions, they just want a business climate in which—by the grace of their ingenuity, enterprise, and hard work—they can be free to practice their profession, which is so essential to our Nation's technological progress.

#### THE CONSULTING ENGINEER

*Professional responsibility.*—A consulting engineer is a graduate professional engaged in the private practice of engineering. He makes his services available to both public and private clients within the States where he is duly registered. These services may include advice and guidance in determining the feasibility of a proposed engineering project; the subsequent stages of design, possibly through to the supervision of construction to insure compliance to the design specifications. Being responsible only to his client and his profession, and possessing no profitmaking connection with any supplier of materials, the consulting engineer can make decisions free from bias and prejudice.

*Services as needed.*—Consulting engineers function in each of the many diversities of the profession. They provide only those services necessary to fulfill their client's engineering requirement on a project-by-project basis. The consultant's fees are agreed upon beforehand through negotiation; competitive bidding is not engaged in by professional engineers.

*Economy to client.*—The employment of a consulting engineer relieves the client of the necessity for maintaining a full staff of professional engineers of diversified capabilities. With salaries being the largest item of overhead in most businesses, the savings realized here are obvious. The same fact applies to both private and public clients.

*Public agency staffing costly.*—If a public agency is staffed—for engineering purposes—beyond a reasonable level necessary to insure continuity, effective planning, administration and control of public works projects, engineering costs soon become out of proportion. This situation also results in the misuse of professional talents, on subprofessional tasks, when the engineering workload is light. In addition to being materially impractical, this practice produces a degradation of the professional's morale.

*Government competition.*—Overstaffing in engineering departments has caused some governmental agencies to solicit engineering assignments from other departments and in some instances from semipublic bodies and even private industry. This is in direct competition with the consulting engineer in private practice, and an almost criminal waste of this country's most valuable resource.

*Private enterprise committee.*—To explore the extent of this encroachment, and obtain documentary evidence wherever possible, a few years ago the Consulting Engineers Council established a private enterprise committee. Since 1960 this group has been collecting, categorizing and analyzing dozens of reports from engineers complaining about Government competition. It has searched through Government records and other sources of data to compile a full documentation of specific cases. Due to the abundance of material available to the committee and the limitations of space, this presentation will only attempt to summarize those cases which are most illustrative of Government encroachment on private practice engineering.



## THE CONSULTING ENGINEER VERSUS THE BUREAU OF RECLAMATION

*Permanent staff of engineers.*—The Bureau of Reclamation—Department of the Interior—employs a permanent staff of engineers who account for practically all of the design work on Bureau projects. In recent years it has expanded its engineering services to include project designs for private land improvement groups who are eligible for long-term Government loans. In some instances, undue pressure and unethical practices were used to urge the client to use the Bureau's engineers rather than private consultants. A summary of a typical case in point follows:

### 1. *The Brady case*

In December 1961, the Gering-Fort Laramie Irrigation District, a group of private landowners in Nebraska, met to discuss with Bureau of Reclamation personnel a proposed rehabilitation and betterment project, to be financed with loan funds secured by the Bureau.

*Government engineering fee 23½ percent.*—Five members of the irrigation district board of directors were present, and six Bureau representatives attended. Two objections were entered by the irrigation district to the contract which was proposed, (1) the 35-year repayment schedule, and (2) the fee for engineering and administration proposed by the Bureau, equal to 23½ percent of the project cost.

*Private engineering fee 6 percent.*—Irrigation district representatives had already discussed this engineering project with a consulting engineer, Mr. Fred D. Brady, of Spearfish, S. Dak., and felt that his fee for this same project, approximately 6 percent of construction costs, would be preferable to the Bureau's 23½ percent fee. By resolution adopted January 4, 1962, the irrigation district accepted the revised rehabilitation and betterment contract with the United States, "with the express understanding that this district has the right to hire private engineering services if this district so desires.

*Government pressure too much.*—The district met again on January 31, 1962, at the special request of the Bureau of Reclamation "to further consider the district's application for rehabilitation and betterment loan." Again high-level Bureau personnel outnumbered irrigation district representatives. The official minutes show that Bureau of Reclamation representatives advised that the rehabilitation and betterment contract as presented had in mind the provision of all engineering by Bureau personnel, and that the retention of a consulting engineer would require redrawing of the contract. "This would take several weeks," advised the Bureau, "and by the time the new form had been approved by the Director and the Commissioner, it could be too late to get it 'in the appropriations bill' that year."

In case the hint was not strong enough, the Bureau further stated that the resolution of January 4 had been discussed with the regional director, and that in his opinion " \* \* \* perhaps such a contract could not be approved."

*Irrigation district surrendered.*—Finding the obstacles erected by bureaucracy too much to overcome, the irrigation district reluctantly agreed to the retention of the Bureau as the engineering firm. Appeals by Mr. Brady to Members of Congress, the Interior Department, and the White House evoked a great deal of sympathy, an investigation of the Bureau by the Bureau, and exoneration by the Bureau of its own personnel.

*Bureaucracy in action.*—The *Brady* case is a tragic demonstration of bureaucracy in action. A bureaucracy which, with its seemingly unlimited time and funds, and officers with lofty titles, is calculated to impress its will upon the humble taxpayer. Here we have the unhappy picture of a tax-supported agency, purportedly dedicated to serving the people, but instead openly competing with the taxpayers who support all of our Government's functions. In this case the group of small businessmen were forced to pay more and get less, because the money lending power of the Government was misused by an agency of the Government.

### 2. *The Bureau as a consulting engineer*

*Government provides consultant services.*—On June 6, 1962, the Bureau of Reclamation announced establishment of a southern California development office at San Bernardino to carry out water resource investigations in that area. The office will be headquarters for long-range planning to meet the water needs needs of southern California. In addition to their long-range planning, the news

release also stated: "An additional responsibility of the San Bernardino office will be the review of loan applications under the Small Reclamation Projects Act, to provide consultant services to applicants approved for construction." To provide consultant services to applicants is a clear statement of a policy of direct competition to the consulting engineer in private practice.

### 3. The Bureau as a "talent" agency

*Engineering specialists loaned.*—The Bureau of Reclamation has embarked upon a policy of loaning engineering specialists to other agencies of the Government and to private organizations indicating that they have personnel in excess of their actual needs to perform the services outlined under the original Authorization Act. Some of these "on loan" projects are listed as follows:

(a) Surveys, designs, specifications for a \$517,000 rehabilitation program for the Sunnyside Irrigation District, Washington.

(b) Consulting engineers services to the Villamontes irrigation project in Bolivia.

(c) Consulting engineering services for the water development needs of the Piranhas River Basin in Brazil. This team includes the Chief Design Engineer at Reclamation Headquarters in Denver, Chief of the Division of River Control, Region IV and a complete consulting staff.

(d) A water resources study in central Luzon, Philippines, including the services of seven Bureau of Reclamation officials.

(e) Consulting supervision of a survey of the Mekong River Basin in Thailand which required the services of the Chief of the Reclamation Bureau, Salt Lake City, Division of River Control.

(f) Consulting services to the Puerto Rican Resources Authority for a study of sedimentation problems incident to the south coast irrigation project in Puerto Rico.

(g) Consulting services, including an evaluation study of the Zula Plain irrigation project in Ethiopia.

#### THE CONSULTING ENGINEER VERSUS THE SOIL CONSERVATION SERVICE

*Aggressive self-promotion.*—This branch of the Department of Agriculture is aggressively promoting its own engineering services to small, independent irrigation and drainage districts and privately owned irrigation systems throughout the arid western areas. Some of the projects for which it is providing complete engineering services are:

(a) Delta Canal Co., Delta, Utah.

(b) Melville Canal Co., Delta, Utah.

(c) Georgetown Creek Irrigation Co., Georgetown, Idaho.

(d) Practically all of the small farm dams and ponds in Oregon.

(e) Smith's Fork, Wyoming Irrigation District.

#### THE CONSULTING ENGINEER VERSUS THE VETERANS' ADMINISTRATION

The Veterans' Administration apparently has a policy which requires the use of only their own architect-engineering staff on Veterans' Administration projects, regardless of the magnitude of the project. An example of this policy in action is contained in a report from the Gulf Institute of Consulting Engineers.

*Revision in policy?*—It was decided to construct a \$2½ million addition to the VA hospital in New Orleans. The original buildings were designed by a local architect-engineer firm, and it would certainly have been most logical and economical to employ their services on the addition. However, the VA elected to provide the design and engineering from within its own staff. When this decision was brought to the attention of officials of the Gulf Institute, they registered a protest both to the Veterans' Administration and to the Louisiana congressional delegation. The VA replied as follows, "In preparing the preliminary drawings, it became necessary for us to obtain more substantial information than usual and to develop the project further than we normally do when contracting with an architect-engineer firm to prepare the working drawings and specifications. For this reason, and in keeping with our policy, it was decided to finish the project within our own organization." It does not appear that the reasons stated in this reply are valid except for the phrase, "and in keeping with our policy." This is apparently a revision in policy by the Veterans' Administration to expand their professional organization to the extent that they can provide all design services within the organization without utilizing the consult-

ing engineer or architect in private practice. The maintenance of this size staff for a project of this magnitude will result in an overstaffing for their normal workload.

#### THE CONSULTING ENGINEER VERSUS U.S. GEOLOGICAL SURVEY

*Unsolicited free service.*—This agency of the Interior Department performs surveys, investigations and research covering the topography, geology, mineral and water resources of the United States for the Federal Government and publishes this information as a public service.

The agency recently offered their services, in direct competition with competent private engineering firms, to the Colorado State Highway Department for geological survey work at the Straight Creek Tunnel site. During the time that the Colorado State Highway Department was negotiating with a consulting engineering firm in Denver, Colo., for the necessary professional services, they received an unsolicited offer to perform these services for a fee from the U.S. Geological Survey. In response to this unsolicited offer, the State highway department indicated their intention to award the contract to a private engineering firm. The Geological Survey then approached the highway department with an offer to perform the assignment at no cost except for core borings. They explained that the survey area had been declared a study area between the time of their original proposal and their offer to perform the service at no cost which allowed them to perform a full-scale investigation from their operating funds. The State highway department accepted this offer for the free service. Protests from the consulting engineers involved were rejected by the Director of Geological Survey with the statement: "Our interest has been in obtaining the maximum amount of geological data in order to utilize the opportunity provided by the tunnel construction to develop and demonstrate geological concepts."

*Government engineer cost \$2 per day.*—Other instances of similar competition have been reported: In April 1962, a water diversion suit was entered in the Boulder, Colo., district court. An engineer employed by the U.S. Geological Survey appeared in court in behalf of the city of Boulder, while a farmers' group was represented by an engineer in private practice, compensated at the rate of \$100 per day, the Geological Survey charged the city \$2 per day for the service of its employee.

It is reasonable to suppose that the Government engineer received more than \$2 per day in salary and expenses and that the difference was absorbed by the Bureau (and the taxpayers).

*Overseas survey assignments.*—This agency also is looking abroad for survey assignments, despite the fact that it was originally intended that only studies of U.S. geological and hydrological resources would be conducted. A paper presented at the 22d Annual Meeting of the American Congress on Surveying & Mapping, held in Washington, D.C., March 12-14, 1962, is entitled "Field Mapping." It describes the development of topographic maps covering 30 or 40 square miles in the vicinity of the city of Talz by a party of Geological Survey engineers. The mapping required 78 days and culminated in a three-color bilingual map "printed on U.S. Geological Survey presses."

#### CORROBORATIVE FINDINGS

##### 1. The Hoover Commission

*Commission supports private enterprise.*—In its investigations into the organization of governmental agencies, the Hoover Commission came to certain conclusions as to the agencies' encroachment upon private enterprise:

(a) Departments and agencies of the Federal Government should not initiate nor carry on any program which provides services regularly obtainable from firms or individuals engaged in private enterprise.

(b) Departments and agencies of the Federal Government should not solicit nor accept engineering works from private industry or from other Government agencies, if such works can be accomplished by private engineering firms.

(c) Departments and agencies of the Federal Government should permanently employ only those professional engineers necessary for the performance of normal functions such as research, planning, supervision, and management.

The Commission's Task Force on Real Property Management issued a report which contained certain conclusions.

*Government cost out of line.*—The cost to the Government of its design and construction activities is abnormally high and out of line with the cost of similar work in private industry. This results from having so many offices independently engaged in architectural and engineering work; from overstaffed,

permanently retained technical groups; from the many different standards and management practices; and from the absence of operating data which would provide a means of comparing the effectiveness of the numerous Federal design and engineering organizations.

*Private firms effective at all times.*—Private architect-engineer and construction organizations are geared to a broad base of diversified work and to the efficiency and flexibility of large-scale competitive construction activities. In times of peace and of national emergency, they have effectively and efficiently met the demands of industry for private construction.

*AEC operating efficiency.*—By contracting to private architect-engineer and construction organizations all phases of design and construction work on Government construction projects, relatively small supervisory engineering organizations, in the executive agencies, could furnish the preliminary study, preplanning and budgeting, and the supervisory management and control essential for all Government projects, without maintaining through periods of fluctuating demands the present costly overhead for complete engineering and construction staffs. With minor exceptions, the AEC has been operating under such a program. "If other Federal agencies could attain the operating efficiency of the AEC, the savings to the Government in just the cost of design and supervision of construction, on the basis of present volume of business, would be more than \$100 million annually.

*"Recommendation No. 19*

"That the Federal design and construction organizations (a) retain in their own organizations only the personnel required for preliminary study, preplanning and budgeting, and essential supervisory management and control, and (b) contract to private architect-engineering and construction firms design and supervision of construction to the maximum extent consistent with national security."

*3. Mr. Robert Moses, New York City construction coordinator*

*Private firms: "Logical and economical".*—In an article entitled "Should Private Firms Plan Public Works?" (New York Times magazine, Nov. 16, 1958), Mr. Moses stated, "Government employees must take care of budgeting or programs, routine construction, overhead policy decision, supervision, review and coordination of plans, maintenance and other essential overhead work. Thereafter, the use of outside professional firms and technicians is the logical and economical method of progressing engineering and architectural design and supervision of most large construction projects."

A COMPARISON OF PUBLIC AND PRIVATE ENGINEERING

*Engineering costs high in California.*—The differences in cost between public and private engineering are illustrated by a comparison of highway construction costs in California where private consulting engineers are rarely used—to those of other States who generally do use consultants. "The following figures are abstracted from the 12th Annual Report of the California Division of Highways, dated January 1959. Excluded from the figure are all administrative expense, 'Highway planning' and 'Planning'.

"The total expenditure for the latter two items for the fiscal year ending June 30, 1958, was: 'Highway planning,' \$1,178,000; 'Planning survey,' \$1,161,099.

"An examination of the report indicates that 'Preliminary engineering' includes:

- "1. Preliminary route location and reconnaissance survey.
- "2. Final route survey.
- "3. Preparation of construction plans.

"Construction engineering' includes construction, supervision, and material testing.

"California makes practically no use of consultants on the highway program."

"Years	Volume of construction	Preliminary engineering		Construction engineering		Total engineering percent of construction
		Total cost	Percent of construction volume	Total cost	Percent of construction volume	
1912-52.....	\$870, 030, 478	\$60, 287, 042	6. 92	\$67, 576, 093	7. 76	14. 68
1952-53.....	94, 130, 979	11, 648, 494	12. 37	9, 385, 309	9. 97	22. 34
1953-54.....	110, 026, 902	14, 735, 724	13. 39	11, 906, 251	10. 82	24. 21
1954-55.....	132, 210, 121	17, 200, 386	13. 01	12, 382, 526	9. 37	22. 38
1955-56.....	144, 124, 391	19, 737, 032	13. 69	15, 227, 790	10. 57	24. 26
1956-57.....	195, 115, 702	25, 168, 692	12. 90	18, 757, 035	9. 61	22. 51
1957-58.....	213, 083, 114	29, 158, 262	13. 68	21, 894, 487	10. 27	23. 95
Total to 1958.....	1, 759, 620, 688	177, 935, 631	10. 11	157, 129, 491	8. 93	19. 04
Average for past 6 years.....						23. 27

*Other States costs low.*—"Representative toll highways: The following information taken at random from official reports of toll highway agencies is illustrative of engineering cost on highway work where services are performed to a large extent by private consultants. The engineering costs for these projects include preliminary engineering and construction engineering within the meanings accepted in highway work. Also included are costs of the supervisory engineering staffs of the respective authorities:

Financial statements of construction and operation, month of December and calendar year 1959:

Construction cost.....	\$36, 136, 929. 80
Engineering cost.....	\$3, 044, 984. 82
Engineering cost percent of construction cost.....	8. 43

Source: Texas Turnpike Authority.

15th quarterly progress report, Sept. 30, 1959:

Construction cost.....	\$289, 810, 370. 00
Engineering cost.....	\$26, 131, 045. 00
Engineering cost percent of construction cost.....	9. 02

Source: The Illinois State Toll Highway Commission.

Statement of construction costs as of Feb. 29, 1960:

Construction cost.....	\$95, 042, 623. 65
Engineering cost.....	\$8, 301, 767. 56
Engineering cost percent of construction cost.....	8. 96

Source: West Virginia Turnpike Commission.

1959 annual report:

Construction cost.....	\$167, 218, 375. 83
Engineering cost.....	\$16, 871, 334. 61
Engineering cost percent of construction cost.....	10. 09

Source: Indiana Toll Road Commission.

10th annual report and letter, dated Apr. 4, 1960:

Construction cost.....	\$799, 663, 799. 00
Engineering cost.....	\$76, 894, 371. 00
Engineering cost percent of construction cost.....	9. 62

Source: New York State Thruway Authority.

15th progress report:

Construction cost.....	\$49, 130, 282. 56
Engineering cost.....	\$3, 536, 904. 28
Engineering cost percent of construction cost.....	7. 20

Source: Richmond-Petersburg Turnpike Authority.

Sunshine State Parkway, Miami to Fort Pierce section, final engineering report, dated July 1, 1958:

Construction cost-----	\$42, 903, 786. 00
Engineering cost-----	\$3, 368, 636. 00
Engineering cost percent of construction cost-----	7. 85

Source: Florida State Turnpike Authority.

NOTE.—The above Florida project is particularly noteworthy in that the entire project, 108 miles in length was completed and opened to traffic in 19 months after proceeds from the bond issue were received. The short time duration resulted in savings to the turupike authority in excess of the total cost of engineering by virtue of savings in bond interest.

#### *Advantages of using private engineers on public projects*

1. The agencies can choose from a wide variety of expert engineering specialists.
2. The necessity for maintaining large Government engineering staffs is eliminated.
3. Personnel roles are stabilized resulting in better morale and increased efficiency.
4. The agencies' operating overhead is reduced; fewer facilities are required.
5. The necessity for "make work" projects is eliminated.
6. Consulting engineers are employed only when their services are needed.
7. Cost comparisons show savings result from the use of private consulting engineers.

#### GENERAL CONCLUSIONS

*Public agencies overstaffed with engineers.*—Based on the findings of its Private Enterprise Committee, the Consulting Engineers Council has adopted the following conclusions:

1. The public agencies are staffed with engineers in excess of reasonable requirements for safeguarding the public interest and carrying out the traditional governmental functions of advance planning, budgetary control, supervision of engineering and construction operations, and the coordination of engineering with other functions.
2. *Loss of market to private engineers.*—There has been a consequent loss of market to engineers in private practice who have been, in the past, effectively and economically able to perform engineering services for public agencies.
3. *Government lending engineering services.*—Many agencies of government, mostly at the Federal level, are now extending engineering services to other agencies of government, Federal, State, and local, and to private clients. In most instances, these services are connected with the granting or lending of Federal funds.
4. This competition is increasing with disastrous effects upon engineers engaged in a highly competitive field.
5. *Government engineering costs increasing.*—Engineering costs are increased by these practices and the tax base is suffering considerable loss at a time when additional revenues are desperately needed to provide a sound fiscal operating base for the Government.

#### SUMMARY OF RECOMMENDATIONS

1. *Fully utilize private engineers.*—The administrative agencies of the Federal Government should be specifically directed to fully utilize the services of private consulting engineers in every instance where the best interests of the American public may be served by such employment.
2. *Continuing study of Federal policies.*—The concerned committees of the Congress of the United States should effect a continuing study of the policies of the Federal administrative agencies which tend to put Government into competition with engineers in private practice.
3. *Enact dollar-limit legislation.*—The Congress should enact legislation establishing specific limits on the dollar value of the engineering works accomplished by the various Government agencies.

SOCIETY OF AMERICAN FLORISTS,  
Washington, D.C.

The American Florists wishes to support the Committee To Reduce Government Competition and support its purposes. In many areas throughout the United States and particularly at military installations, there have been estab-

lished and maintained greenhouses and floral shops that are run by the Government that should be in the hands of taxpaying citizens. The florists are desirous of informing the Joint Economic Committee of the unlimited technical capabilities and specialties available to it from all segments of the floral industry throughout the United States. The florists urges members of this committee to actively oppose this Government competition with legitimate taxpaying businesses and permit our free enterprise system a chance to operate fully and effectively.

---

LEGISLATIVE COUNCIL FOR PHOTOGRAMMETRY,  
*Washington, D.C., May 11, 1964.*

Senator PAUL DOUGLAS,  
*Chairman, Joint Economic Committee,  
Old Senate Office Building,  
Washington, D.C.*

DEAR SENATOR DOUGLAS: Providing accurate and adequate maps for general public use is logically the business of the Federal Government. It is recognized that the economic growth of the Nation and of the world is dependent to a large extent upon how much we know about the physiographic features of the land and resources available for exploitation. If private enterprise, local State or municipal organizations were dependent upon their own facilities and funds to acquire the necessary knowledge of an area, many, if not most, of the civil works projects, land development programs, transportation improvement studies, etc., could never be initiated. Maps provided by Federal mapping agencies are the basis for comparisons, planning, and decisions necessary to designing procedures that take advantage of all natural conditions.

The Federal mapping activity is one which must grow as the Nation grows—maps change with population growth and economic development, and require more frequent updating as progress is made. Map uses change also. Growing public awareness of maps has created new demands for map detail, for standardization of presentation, and for various formats. We must expect that the Federal Government will and should inevitably continue to increase its role in providing good maps to the public. This means that the budgets of these agencies must increase to permit fulfillment of a vital mission and to better serve the public.

It is not the desire of the Legislative Council for Photogrammetry, nor those private mapping firms represented by our council, to see any curtailment in Federal expenditures in support of national mapping programs. Neither do we seek to end or hinder the progress of those agencies responsible for accomplishment of these worthwhile Federal programs. We are unanimously in accord with the long-range plans of the Government agencies with respect to the need for increased Federal assistance to State, municipal, and county governments to provide maps and resources surveys which contribute to renewal programs, area redevelopment projects, land use studies, and general resources development and planning. However, we are not in agreement with the philosophy that the Federal agencies have adopted toward participation of established, well-qualified private firms in the accomplishment of the mapping programs.

The agencies with which we are most concerned at this time are the Geological Survey, the Coast and Geodetic Survey, the Army Map Service, and the Inter-American Geodetic Survey.

A large percentage of the Federal funds appropriated are spent each year to purchase capital equipment and plant facilities and to enlarge the already vast inhouse capabilities of Government bureaus. With these new facilities, additional Federal employees are needed. The result is, almost without exception, duplication of facilities already available in private firms, and personnel in excess of the number needed in private firms for comparable work.

The presence of all these factors within the Government bureaus gives rise to an aggressive sales program by the agencies to solicit new business programs for the bureau. These programs often bear little or no relation to the mission of the agency. We find representatives of the Federal agencies in "liaison" or "coordinator" positions throughout the country, working thereby with local authorities to develop "cooperative" programs wherein contracts are entered into which provide that the services of the bureau will be used. These same services are available from private firms and, in many cases, from private firms in the same community.

An example of this would be the Coast and Geodetic Survey. Approximately 2 years ago their charter was amended, removing their geographical limitations.

They are now free to work in any part of the world. With district offices throughout the United States (already an overhead item which the majority of our industry members cannot afford), they are able to keep constantly informed on prospective new projects. Coast Survey people willingly act as consultants—as any of us in the industry would do—they cultivate the “client” to get in on the ground flood of the project, then negotiate a cooperative program. These so-called cooperative programs are seldom more than an outright contract whereby the Coast Survey performs the work and gets paid for it.

In 1962 the Coast and Geodetic appropriation was \$18 million; \$15.2 million was added to their regular appropriation for capital expenditures, adding ships and new facilities to their capability. “Sales” to other Federal agencies and private industry for the year grossed the Coast Survey over \$8 million above their previously stated regular appropriations.

These statements regarding the Coast and Geodetic Survey were not presented to single out the Survey as a prime offender. All of the agencies listed previously are similar offenders. These statistics are made available in the annual reports of the Survey.

The attitude prevailing within most Federal mapping agencies toward private mapping firms is the product of the bureaucracy that has been allowed to develop a Government monopoly in mapping and related engineering graphic and printing skills. We are prepared to document case after case where Federal agencies have “sold” their services in competition with our industry, under the pretext that private firms were not available, interested or competent. These “sales” are often made by the bureau on the basis that Federal assistance will be made in the form of services rather than funds.

Therefore, the cost to the bureau's customer is seldom determined on a realistic basis prior to the bureau's entry into the project. In contrast, private companies must make firm bids or proposals on their services. These proposals are made in competition with Federal agencies selling the services of their bureaus rather than administering expenditures of Federal assistance funds.

We take the viewpoint that whether services or funds are provided, the costs should be viewed in dollars of tax money. True costs can only be determined when actual overhead costs, including such items as vacations and sick leave, building rentals, heat, light, air conditioning, supervision, research and planning staffs, travel, management training programs, etc., are added to direct job costs.

In our opinion it is possible to prove conclusively that Federal costs for accomplishing mapping of any kind are substantially higher than they would be, and are, in private industry. We also believe that, despite the excessively equipped plants and abundance of personnel available on a permanent basis to Government bureaus, our industry can produce to the same quality standards and meet production schedules more easily. We would welcome an opportunity to demonstrate this.

Current bills in Congress, such as S. 1093, S. 2268, H.R. 8352, H.R. 9710, H.R. 10745, and H.R. 4926 are examples of concrete steps that must be made to put an end to the kind of Government competition which threatens demise to our industry, mostly comprised of small business—all taxpayers. Still more concrete steps are needed.

We desire to see legislation presented and enacted into law which will conserve Federal funds granted to States, municipalities, and counties, as well as other organizations, which are to be spent for mapping, resources inventories, planning, and general development. The provision should be made that private enterprise must be used in preference to Federal agencies or federally supported organizations, offering substantially the same services or products.

We can provide substantive evidence to prove that—

1. Private firms can do mapping equally well for less money.
2. Competition from Federal bureaus has caused an unwarranted decline in the mapping industry during the past 10 years.
3. Further buildup of Federal mapping bureau capabilities is not in the national interest.

In the United States, under our free enterprise system, the burden of proof regarding the economic soundness of private enterprise versus Government should be assumed by the Government, not private enterprise. By stipulating use of private enterprise on federally funded assistance programs, the healthy atmosphere of competition between rival companies would be revived to clearly demonstrate why our industry is confident in our assertions that we can do the job as well, if not better, with less cost to the people of the United States.

Sincerely,

WILLIAM S. BERGMAN, *Executive Director.*



### APPENDIX 3

#### "BUY AMERICAN" ACT

U.S. SENATE,  
Washington, D.C., May 13, 1964.

Hon. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
New Senate Office Building, Washington, D.C.

DEAR PAUL: In order to focus greater attention on the impact of the administration of the Buy-American Act on the cost of Federal procurement, I would appreciate it if, pursuant to the unanimous consent of the Subcommittee on Defense Procurement on April 21, you would submit the following questions to BOB, GSA, DOD, State, AID, and GAO, to be made part of the record of the subcommittee's hearings of April 16 and 21, 1964:

(1) What price differentials are being applied by your department under the Buy-American Act? Since what date is this differential applied? Is the new price differential the rule or the exception?

(2) What percentage of the agency's annual procurement is affected by the Buy-American Act? Has this percentage differed in past years? If so, indicate the dollar amounts and percentages involved over the past 3 fiscal years.

(3) To what extent has your agency's "Buy American" policy resulted in the reduction of the U.S. balance-of-payments deficit during the past 3 fiscal years? Indicate amounts involved during the preceding 3 fiscal years.

(4) What is your estimate of the additional budgetary cost of your agency's interpretation of the Buy-American Act? (To DOD only) How does this additional cost, if any, accord with President Johnson's call for economy in defense procurement in his letter to defense contractors of December 1963?

(5) Has the agency at any time waived the application of the Buy-American Act in a substantial purchase of articles and supplies or construction of public buildings under authority granted to it by Executive orders? If so, under what circumstances?

(6) (To State only) To what extent is the stricter interpretation of the Buy-American Act now being followed compatible with our negotiating posture at the forthcoming Kennedy round?

(7) (To BOB only) What is the present status of the Bureau of the Budget's study of the administration of the Buy-American Act referred to, among others, in Assistant Secretary of Defense Thomas D. Morris' letter to Senator Douglas dated April 18, 1963? (See p. 357 of the subcommittee's hearings Mar. 28, 1963.) Would you furnish a copy of the study to the subcommittee, if the study has been completed? If the study has not been completed, when do you expect it to be ready? If the study is to be for use within the executive branch, would you furnish the subcommittee with your principal conclusions?

(8) The Commission on Foreign Economic Policy, in its report to the President and the Congress in January 1954, recommended that the Buy-American Act and legislative provisions of other acts containing the "Buy American" principle "should be amended to give authority to the President to exempt from the provisions of such legislation the bidders of other nations that treat our bidders on an equal basis with their own nationals." What would be your agency's position on such an amendment appropriately offered for the consideration of the Congress?

(9) If the differential now being applied by your agency is in excess of that specified in Executive Order 10582 dated December 17, 1954, is that differential being applied uniformly and consistently and on the basis of established criteria? What steps are being taken to insure that all prospective bidders clearly understand what price differentials they must contend with when submitting a bid affected by the Buy-American Act?

With warm regards.

Sincerely,

JACOB K. JAVITS, U.S. Senator.

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., May 25, 1964.

HON. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter of May 13 enclosed nine questions from Senator Javits relating to the Buy American Act and requested answers from the Bureau of the Budget. Our response to these questions is enclosed.

Sincerely,

KERMIT GORDON,  
Director.

RESPONSES TO QUESTIONS FROM THE JOINT ECONOMIC COMMITTEE RELATING TO THE  
IMPACT OF THE BUY AMERICAN ACT ON THE COST OF FEDERAL PROCUREMENT

Questions 1 through 6 and question 9 relate to matters of individual agency procurement. The Bureau of the Budget has no significant procurement to which the Buy American Act would apply.

Question 7. Late in 1963 the Bureau of the Budget completed a staff study relating to foreign procurement policies of the U.S. Government. This study was a factual report on foreign procurement, indicating the relevant laws, Executive orders, and other regulations applying to such procurement, giving data relating to this procurement, and making, where possible, estimates of budgetary costs involved in applying various aspects of these laws, orders, and regulations. A copy of this study is attached.

Question 8. This question asked for the position of the Bureau of the Budget on a proposal made by the Commission on Foreign Economic Policy in January 1954 which would give the President authority to exempt from the provisions of the "Buy American" legislation bidders of other nations that treat our bidders on an equal basis with their own nationals. This proposal relates to matters involving negotiations between the U.S. Government and other governments with respect to foreign economic policy. In view of the nature of the subject matter involved, we do not wish to comment separately, but, rather, we concur in the response to your committee which the State Department is providing in answer to your letter to them.

MAY 25, 1964.

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

BUREAU OF THE BUDGET STAFF STUDY ON THE FOREIGN  
PROCUREMENT OF THE U.S. GOVERNMENT, 1963

CONTENTS

- I. Introduction.
  - II. Foreign procurement for use in the United States—the Buy American Act and Executive Order 10582.
    - A. Types of foreign procurement under the act:
      - 1. The act, the Executive order, and recent Department of Defense policy.
      - 2. Foreign procurement under the unreasonable cost exemption.
      - 3. Foreign procurement exempted for reasons of nonavailability in the United States.
      - 4. Foreign procurement exempted under special international arrangements.
    - B. Geographical origin of foreign procurement for domestic use.
    - C. Commodity composition of foreign procurement.
    - D. Foreign procurement under defense policies after July 1962.
    - E. Effects of increasing the price preference for domestic products.
    - F. Possible effects of changing the definition of a "foreign product."
      - 1. Effect on procurement costs and foreign exchange savings.
      - 2. Effect on contract administration.
    - G. Foreign procurement policies of other OECD governments.
  - III. Foreign procurement for use outside the United States.
    - A. Volume and source of procurement.
    - B. Procurement policies of agencies.
      - 1. Defense.
      - 2. Agency for International Development.
      - 3. Other agencies.
- Annex I. Foreign procurement of commodities for use in the United States—breakdown by type of exemption from "buy American" requirement.
- Annex II. Foreign procurement for use in the United States—breakdown by geographic origin.
- Annex III. Foreign procurement for use in the United States by commodity breakdown.
- Annex IV. Foreign procurement by the Defense Department—for use in the United States.
- Annex V. Foreign procurement for use outside the United States.

## FOREIGN PROCUREMENT BY THE FEDERAL GOVERNMENT

## I. INTRODUCTION

This study of foreign procurement<sup>1</sup> by the Federal Government covers procurement abroad for use in the United States and for use abroad. Data have been assembled indicating the volume of such procurement in fiscal years 1960, 1961, and 1962, classified by the type of justification (e.g., unreasonable cost in the United States, unavailability, etc.), by major commodity groups, and by geographic origin. Separate data on foreign procurement by the Defense Department during the first 9 months of fiscal year 1963 have also been included. In addition, information has been obtained on the price differentials used by various agencies in evaluating choices between domestic and foreign bids. Estimates have been made of the effects of various price differential policies on balance-of-payments outflows and budgetary costs. Consideration has also been given to the effects of lowering the share of foreign components in the definition of a domestic product under Executive Order 10582.

The two major parts of this study relate to the two major types of foreign procurement: (1) Procurement abroad for use in the United States (subject to the Buy American Act); and (2) procurement abroad for use abroad.

Executive Order 10582, issued in 1954, spells out the procurement policy to be followed by Government agencies under the Buy American Act. This order provides that the Federal Government procure supplies from domestic sources except when domestic prices are unreasonable, or the items are unavailable in the United States in sufficient commercial quantities and/or quality, or are for use outside the United States. The Executive order provides a 6-percent price differential in favor of domestic producers under the unreasonable cost exemption, and administrative policies have authorized an additional 6 percent for domestic goods offered by a small business or produced in an area of substantial unemployment. In July 1962 the Defense Department changed its foreign procurement policies. The Secretary of Defense now reviews all proposed foreign awards exceeding \$100,000 and higher price preferences for domestic supplies are being applied. Defense adopted this policy under the national interest exception provided in Executive Order 10582, in order to minimize the impact of defense expenditures on the balance of payments. The other Federal agencies continue to apply the 6/12 price differential.

This study by Bureau of the Budget staff brings up to date the report on procurement under the Buy American Act and Executive Order 10582 made by the Bureau at the request of the Council on Foreign Economic Policy in September 1960. However, since this report covers procurement for use abroad as well as for use in the United States, it includes agencies whose major procurement is for use abroad which were outside the scope of the previous report. It also covers some agencies whose procurement is for use in the United States which were not included in the 1960 report.

To obtain the data for this study, the Bureau of the Budget sent questionnaires to the agencies which account for the major share of foreign procurement by the Federal Government. To ease the reporting burden on the agencies, they were asked to report only on contract awards of \$10,000 or more. However, several agencies whose records were set up to report all contract awards without difficulty have done so. No appreciable amount of foreign procurement has been neglected, since the great bulk of it is through contracts of \$10,000 or more. The tables are prepared on a contract award basis as reported by the agencies.

This report does not contain data on the use of American materials by contractors for Federal construction projects under section 10b of the Buy American Act. This section states that contractors are required to use raw materials which are entirely American produced and manufactured materials which are substantially American. The definition of "substantially American" for this purpose is the same for the other sections of the Buy American Act, and is spelled out in Executive Order 10582. (See footnote 1, p. 1.)

<sup>1</sup> Foreign procurement as used in this study refers to purchases of items of foreign origin. As provided in Executive Order 10582 materials are considered of foreign origin if the cost of the foreign products used in such materials constitutes 50 percent or more of the cost of all the products used in such materials.

## II. FOREIGN PROCUREMENT FOR USE IN THE UNITED STATES—THE BUY AMERICAN ACT AND EXECUTIVE ORDER 10582

### A. TYPES OF FOREIGN PROCUREMENT UNDER THE ACT

#### 1. *The act, the Executive order, and recent Department of Defense policy*

The Buy American Act (41 U.S.C. 10—a–d, enacted Mar. 3, 1933) requires the procurement of domestic materials by U.S. Government agencies unless: (1) The head of the procuring agency determines their purchase would be inconsistent with the public interest; (2) he determines their cost would be unreasonable; or (3) they are not produced in the United States in sufficient and reasonably available commercial quantities of satisfactory quality.

In 1954 the President issued Executive Order 10582, which established specific policy guidance for foreign procurement throughout the Federal Government. Executive Order 10582 provides that: (1) Materials shall be considered of foreign origin if the cost of the foreign products used in such materials constitutes 50 percent or more of the cost of all the products used in such materials, and (2) a domestic price shall be considered unreasonable if it exceeds the delivered cost of foreign material (including duty) by 6 percent, or if it exceeds the offered price of materials of foreign origin, exclusive of duty and all costs incurred after arrival in the United States, by 10 percent. The 6-percent rule is generally used except for the Panama Canal Company, which uses the 10-percent differential, there being no import duties on goods entering the Canal Zone.

The Executive order states that nothing in the order (including the 6-percent and 10-percent rules) shall affect the authority or responsibility of an agency: (1) to reject any bid for reasons of the national interest; (2) to place a fair proportion of the purchases with small business concerns; (3) to reject foreign bids when the lowest price domestic supplier undertakes to produce the materials in areas of substantial unemployment; and (4) as provided by a recent amendment to the order, to reject any foreign bid if necessary to protect essential national security interests. Nor do the provisions of the order apply if an agency head, proposing to purchase domestic materials, determines: (1) that a greater differential (between the cost of materials of domestic origin and materials of foreign origin) than that provided in the order is not unreasonable; or (2) that the purchase of materials of domestic origin is not inconsistent with the public interest.

In 1955 it was determined within the administration that in implementing the substantial unemployment exception, or the small business provision, agencies could add an additional 6-percent differential for a total of 12 percent (or 16 percent if 10 percent is used for the base). In July 1962 the Defense Department decided to apply higher differentials in order to reduce Defense expenditures affecting the balance of payments. Specifically, the Secretary of Defense directed that:

(a) Procurements of foreign supplies would be submitted in writing for his approval or that of the Deputy Secretary, except that foreign procurements estimated not to exceed \$100,000 could be approved by subordinate officials. Before approving procurement of supplies determined to be nonavailable in the United States, consideration was to be given to the feasibility of forgoing the requirement or providing a U.S. substitute.

(b) Construction contracts within the United States and its possessions, involving use of nondomestic construction materials, should not be awarded without the prior written approval of the Secretary of Defense or the Deputy Secretary.

(c) Procurement of research and development outside the United States should be held to an absolute minimum, and be undertaken only pursuant to treaty obligations or if the requirements could not be met domestically.

The new Defense policies on foreign procurement for use outside the United States are discussed in part III.

Defense took these steps under the national interest exception established in Executive Order 10582. The Coast Guard subsequently adopted the Defense policies. The procurement policies of other Federal agencies have not been changed.

#### 2. *Foreign procurement under the unreasonable cost exemption*

It is procurement in this category in which domestic firms are in direct competition with suppliers of foreign products. Foreign procurement in this category has averaged \$25 to \$30 million during the last 3 years, has been less than

fifteen one-hundredths of 1 percent of total procurement subject to the Buy American Act requirements, and has averaged only 12 to 14 percent of total foreign procurement by the Federal Government.

Foreign procurement under the unreasonable cost exemption accounted for a minute fraction of total procurement contract awards by reporting agencies in 1960, and declined to an even smaller share in 1961 and 1962. Such foreign purchases accounted for 0.15 percent of total procurement for use in the United States in 1960, and declined to only 0.11 percent in the following years. It had been 0.18 percent in 1959.

The following agencies accounted for the major share of foreign procurement under the unreasonable cost provision.

[Dollar amounts in millions]

	1960		1961		1962	
	Amount	Percent	Amount	Percent	Amount	Percent
Defense.....	\$13.3	44	\$18.5	72	\$23.0	80
Interior.....	3.1	10	3.3	13	1.4	5
Tennessee Valley Authority.....	11.3	37	1.5	6	1.1	4
Atomic Energy Commission.....	1.4	5	.6	2	.5	1
Veterans' Administration.....	.4	1	.8	3	.8	3
Panama Canal.....	.4	1	.3	1	.7	2
Health, Education, and Welfare.....	(1)	-----	.4	2	.8	3
All others.....	.4	2	.3	1	.6	2
Total.....	30.3	100	25.7	100	28.9	100

<sup>1</sup> Less than \$50,000.

Much of the increase in the Defense share of "Buy American" procurement was due to Navy and Defense Supply Agency (DSA) foreign purchases of iron and steel manufactures and other industrial supplies, as well as DSA purchases of medical supplies and equipment.<sup>2</sup>

### 3. Foreign procurement exempted for reasons of nonavailability in the United States

Foreign purchases for use within the United States but excepted from the "Buy American" requirement because the items were not available in the United States in sufficient commercial quantities and/or of satisfactory quality were more than five times as great in 1960-62 as foreign purchases on grounds of unreasonable domestic cost. However, their importance in total foreign procurement steadily declined from 68 percent in 1960 to 53 percent in 1962. Total contract awards in this category amounted to \$152.7 million in 1960, \$133.1 million in 1961, and \$140.7 million in 1962.

The agencies with major procurement programs have each compiled lists of items procured on a continuing basis and unavailable in the United States. For example, the Defense list (ASPR6-105) includes, among other items, petroleum products and subsistence items. Once listed, such items are automatically excepted from the "Buy American" requirement. Nonavailable items similarly listed by civilian agencies include subsistence commodities for the Veterans' Administration, scientific equipment for the Atomic Energy Commission, National Aeronautics and Space Administration, and small amounts of specialized supplies for Commerce, Agriculture, and Interior.

Unlisted items may also be excepted from the "Buy American" requirement on individual justification of nonavailability in the United States. Such individual exceptions are relatively rare, however, accounting for only 6 percent of the total procurement under the nonavailability exception. Most of the procurement under individual justification was by the General Services Administration, and consisted of purchases of abaca, sisal, and diamond dies for the national stockpile totaling \$10.6 million in 1960, \$7.4 million in 1961, and \$12

<sup>2</sup> In 1962 DSA took control of the Defense supply centers previously operating under the individual services. The figures for fiscal year 1962 have been prorated between the services and DSA on the basis of the number of months the services were in control of the supply centers during fiscal year 1962.

million in 1962. At this writing, the General Services Administration expects very little foreign procurement for dollars for stockpile purchases in the future. Since the items in this category are unavailable in the United States, only a reduction in their use or the development of domestic substitutes would permit a significant change in the volume of foreign procurement.

#### 4. Foreign procurement exempted under special international arrangements

Procurement in Canada and Panama by certain Federal agencies is exempted from the "Buy American" requirements under special agreements with those countries. Procurement from these countries accounted for a steadily rising share of foreign purchases—17 percent in 1960 to 34 percent in 1962. Since the exemption to the "Buy American" requirement for them is subject to international agreement and closely related to our basic foreign military and economic policies, changes in administrative policies would be unlikely to affect the level of procurement from these countries.

Various steps have been taken during and since World War II to increase military logistic cooperation between the United States and Canada because of their close geographical proximity and mutual interest in the defense of North America. These steps have resulted in a greater flow of defense supplies and equipment between the two countries. In order to facilitate this flow, various Secretaries of the Defense Department have determined that it would be inconsistent with the public interest to apply the Buy American Act restrictions to certain supplies of a military character. Canadian products on this list are treated as domestic products, and neither duty nor the bid evaluation criteria of the Buy American Act and Executive Order 10582 are to be used in evaluation of offers. Bids offering unlisted Canadian products are not subject to the "Buy American" price preference but are evaluated with any applicable duty included. Purchases from Canada of food items or supplies for civil works undertaken by the Army are subject to the Buy American Act, however. The policies and procedures for procurement from Canada are set forth in an agreement, dated July 27, 1956, as amended December 17, 1956, May 31, 1957, and January 6, 1961, between the Department of Defense (Production) Canada and the Departments of the Army, Navy, and Air Force. Procurement in Canada has increased rapidly during the last 3 years, from \$37.6 million in fiscal year 1960 to \$90.1 million in fiscal year 1962. Nearly four-fifths of the increase in Canadian procurement was in Army purchases, a large part of which represents procurement in Canada of Caribou I (DeHaviland) planes. In previous years the Air Force had procured Caribou planes, so that part of the increase in Army purchases was offset by a decrease in Air Force purchases. The Navy procurement of Polaris submarine components accounted for much of the remaining rise in procurement in Canada.

Procurement in Panama for use in the Canal Zone is also exempted from the "Buy American" requirement, as provided in the memorandum of understanding ancillary to our Treaty with Panama of January 25, 1955. Over 90 percent of the Panama Canal Company's foreign procurement is in Panama. U.S. produced nonsubsistence products purchased from Panamanian agents accounts for 68 percent of the Company's purchases in Panama, and the remaining 32 percent consists of subsistence products of both foreign and domestic origin.

#### B. GEOGRAPHICAL ORIGIN OF FOREIGN PROCUREMENT FOR DOMESTIC USE

Foreign procurement for domestic use has been more or less evenly divided between the 19 hard currency industrial countries<sup>a</sup> and the rest of the world, with a moderate increase in procurement from the industrial countries in 1962. Procurement from the countries in which the United States holds foreign currencies in excess of its anticipated needs—Burma, India, Indonesia, Israel, Pakistan, Poland, Yugoslavia, United Arab Republic (Egypt) and Syrian Arab Republic (Syria)—is very limited in amount. The breakdown by origin is as follows (including all foreign procurement for domestic use, regardless of the justification for exemption from the "Buy American" requirement):

<sup>a</sup> These are countries from which AID does not authorize procurement for balance-of-payments reasons. At this writing, they are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland, United Kingdom, and Spain.

[Dollar amounts in millions]

	1960		1961		1962	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
19 hard currency countries.....	\$101.5	45	\$102.3	45	\$133.0	51
Excess currency countries.....	.6	( <sup>1</sup> )	.6	( <sup>1</sup> )	.9	( <sup>1</sup> )
All other countries.....	121.9	55	127.6	55	130.0	49
<b>Total.....</b>	<b>224.0</b>	<b>100</b>	<b>230.5</b>	<b>100</b>	<b>263.9</b>	<b>100</b>

<sup>1</sup> Negligible.

Procurement in the industrialized countries consists principally of military items procured from Canada and specialized equipment available only from Western European sources, such as ejector seats for aircraft, all of which are procured from one British manufacturer, as well as items such as steel and drugs on which Western European producers are highly competitive with American firms.

The large volume of procurement in other areas consists mostly of petroleum products from the Caribbean and the Middle East (which account for almost two-thirds of procurement outside the hard currency countries) and subsistence and stockpile purchases in tropical areas. Since most of the Government's purchases outside the industrialized countries consist of products unavailable in the United States, this portion of foreign procurement would be little affected by any changes in the price differentials applied in evaluation of foreign and domestic bids under the Buy American Act.

## C. COMMODITY COMPOSITION OF FOREIGN PROCUREMENT

The commodity composition of the Government's foreign procurement has been distributed as follows during the last 3 years:

[Dollar amounts in millions]

	Fiscal year 1960		Fiscal year 1961		Fiscal year 1962	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Military items.....	\$5.4	2	\$5.8	3	\$6.7	3
Aircraft, landing equipment and parts.....	17.2	8	43.5	20	58.0	22
Transportation equipment.....	.6	( <sup>1</sup> )	2.9	1	1.5	1
Electronics and communication equipment.....	15.9	8	12.8	6	19.7	7
Electric wire, power, and distribution equipment.....	12.4	6	2.4	1	2.1	1
Fuels, lubricants, oils.....	76.9	34	80.7	35	85.1	32
Medical and dental equipment.....	2.3	1	2.8	1	2.5	1
Metal bars, sheets, and shapes.....	2.4	1	2.9	1	4.1	2
Purchases for national stockpile.....	10.4	5	7.4	3	12.0	5
Construction materials.....	.7	( <sup>1</sup> )	.4	( <sup>1</sup> )	1.0	( <sup>1</sup> )
Industrial machinery and equipment.....	1.5	1	1.8	1	1.3	( <sup>1</sup> )
Clothing and subsistence items.....	22.2	10	28.9	13	30.5	12
Scientific and office equipment and books.....	1.3	1	1.2	1	3.6	1
Miscellaneous consumer goods.....	.6	( <sup>1</sup> )	3.0	1	.9	( <sup>1</sup> )
Miscellaneous metal manufactures.....	2.2	( <sup>1</sup> )	1.0	( <sup>1</sup> )	3.9	2
Miscellaneous defense procurement.....	48.3	20	26.9	11	27.9	10
Miscellaneous, not elsewhere classified.....	3.7	2	6.1	2	3.1	1
<b>Total.....</b>	<b>224.0</b>	<b>100</b>	<b>230.5</b>	<b>100</b>	<b>263.9</b>	<b>100</b>

<sup>1</sup> Negligible.

A more detailed government-wide breakdown is shown in annex III. Annex IV provides a more detailed breakdown of foreign procurement by the Defense agencies. The Department of Defense has reported procurement data according to a classification which is not identical to that used in the reports from other agencies, but the two classification systems are similar enough that the military and civilian procurement could be combined in annex III to provide a reasonably accurate picture of the general composition of our foreign procurement.

## D. FOREIGN PROCUREMENT UNDER DEFENSE POLICIES AFTER JULY 1962

During the 9 months following the introduction by the Defense Department of new procurement policies (July 1962 to March 1963), its foreign origin procurement for use in the United States amounted to \$38 million, excluding procurement from nonappropriated funds, petroleum, construction, or the military assistance program.<sup>4</sup> This was substantially below the rate for comparable procurement during fiscal year 1962. Major foreign procurement sources for Defense in 1963, other than Canada (\$13.8 million), have been Brazil (\$7.5 million) and Colombia (\$3.7 million). Procurement from Western Europe amounted to \$8.6 million during this period, mostly in Italy, the United Kingdom, France, and Germany.

Subsistence items made up more than a third of total procurement, electronics and communication equipment nearly a fourth.

Only a minor share of Defense foreign purchases was made under the "unreasonable cost" provision of the act and Executive order. Similarly, only a small part of the reduction in Defense foreign purchases arose from the application of higher price differentials under the national interest exception. The additional foreign exchange savings from the application of higher differentials during the first 9 months of fiscal 1963 amounted to \$6.1 million, at an increased budgetary cost of \$1.7 million, or 28 percent.

## E. EFFECTS OF INCREASING THE PRICE PREFERENCE FOR DOMESTIC PRODUCTS

Estimates of the effects on our foreign procurement of increasing the price preference for domestic products are extremely difficult to make, since international price relationships are unstable, and complete and precise data are not available. Furthermore, increasing the price preference for domestic products would affect only the relatively small volume of procurement to which "Buy American" price differentials are applied, amounting to about \$25 to \$30 million annually. As noted earlier, the rest of the Government's foreign purchases consist of items either unavailable in the United States or procured subject to special international agreements.

A majority of the Federal agencies reported that neither their foreign procurement nor budget expenditures would be much affected by an increase in the price differential to 25 percent, since their purchases from foreign sources were made because the items were unavailable in the United States, and/or foreign expenditures accounted for such a small part of their total budgets that any change in the differential would have little effect on them. Some agencies would be affected by a change, however, notably Defense, TVA, Interior, Veteran's Administration, and Health, Education, and Welfare.

Despite the difficulties of estimating the effects of different levels of preference, the experience of the agencies during the last 3 years does suggest the general magnitude of changes in foreign procurement which might result from changes in price differentials. The relationships suggested are generalized from a small sampling of foreign awards by the agencies, and represent no more than a rough hypothesis regarding the effects of different levels of price preferences. Subject to these caveats, it is estimated that if the price preference were raised to 25 percent, foreign procurement might be reduced by \$10 to \$15 million, but at an additional budgetary cost of \$1.5 to \$3 million. Higher price preferences would continue to reduce foreign procurement, but in proportionately smaller amounts and at increasing budgetary cost.

## F. POSSIBLE EFFECTS OF CHANGING THE DEFINITION OF A "FOREIGN PRODUCT"

Executive Order 10582 provides that materials shall be considered of foreign origin if the cost of the foreign products used in such materials constitutes 50 percent or more of the cost of all the products used in such materials. In order to insure that suppliers fulfill this requirement, each contractor must sign a statement including language to the effect that the "domestic source and product" offered is an (a) unmanufactured end product mined or produced in the United States or (b) an end product manufactured in the United States of

<sup>4</sup> The Defense procurement data after fiscal year 1962 are on a different basis from data for prior periods in this report.



which the components mined, produced, or manufactured in the United States exceed 50 percent of the cost of all its components. "Components" means those articles, materials, and supplies which are directly incorporated in the end products.

Decreasing the permissible foreign components share could have varying effects on the balance of payments. In the simplest case such a change would discriminate among domestic suppliers in favor of those using a higher share of domestic components in their products. A change in the definition of a foreign product could also provide an incentive for domestic manufacturers to incorporate a large proportion of domestic materials in their products. While this might raise the prices of their products, it would take a sizable difference between the cost of foreign components and the cost of domestic components to wipe out even a 6-percent overall price differential.<sup>5</sup>

It is possible, on the other hand, that lowering the foreign share might result in an increase in awards to foreign suppliers. Domestic producers who have been successful in obtaining awards because their costs were low due to the use of some foreign components would be handicapped; thus, bids now going to a domestic firm with 50-percent American components and 100-percent American processing, for example, might be awarded to foreign suppliers. Further, the incentive to increase domestic components in order to retain the advantage of the price preference would exist only so long as the added cost of domestic components falls within overall cost limits enabling a supplier to compete with his domestic as well as foreign competitors; in some instances, these conditions may not exist and the supplier would be forced to allow his products to become classed as foreign items. In that event he might be encouraged to purchase a larger portion of his components from foreign sources or even to establish production facilities in a foreign country. Such actions would, of course, have a detrimental effect upon the balance of payments.

To estimate the effect of a change in the "components rule" on the balance of payments it would be necessary to obtain detailed facts concerning the proportions of foreign components now used by various domestic suppliers, further classified by the difference in price between domestic and foreign components and by the spread between domestic and foreign bids. Since this information is not available, it is impossible to formulate an accurate estimate. However, in order to narrow the area of uncertainty, a spot survey was undertaken by the Department of Defense in collaboration with the Bureau of the Budget and several other agencies.

The results of this survey are summarized in the following paragraphs:

#### *1. Effect on procurement costs and foreign exchange savings*

The defense agencies estimated divergent results from lowering the foreign components share, the variation depending on the nature of the commodities procured by the particular agency concerned. DSA reported that 85 percent of its procurement consisted of commodities unavailable in the United States and therefore exempt from the "Buy American" requirement, or restricted to the United States by other statutory restrictions (Department of Defense Appropriation Act covering articles of food and clothing). The remaining items procured by DSA contain few foreign components, so that raising the domestic components share would add little to either procurement costs or foreign exchange savings.

The Air Force views were generally similar to those of DSA. The Air Force Systems Command reported that the foreign components in the products which it procured were specialized scientific items unavailable in the United States and, in any case, accounted for less than 10 percent of the total. The Systems Command reported that one recent electronic system purchase amounting to

<sup>5</sup> Assume, for example, a domestic manufacturer, currently procuring 50 percent of his components from foreign sources, with an overall components cost equal to one-half his bid price (i.e., the cost of foreign components is one-fourth his bid price). Assume further, that the Executive Order 10582 definition of a domestic product were changed to require that 75 percent of his components be procured in the United States (i.e., an increase in domestic components equal to one-sixth of the bid price). With a 6-percent "Buy American" price differential, the manufacturer would have an incentive to increase his domestic component share to 75 percent, in order to retain the 6-percent differential, so long as the price of the added domestic components was not more than 55 percent greater than the foreign price.

\$3.3 million included 39 percent foreign components all unavailable in the United States. Since domestic components could not be substituted for foreign ones in most Air Force purchases of end products, the end products would become ineligible for the "Buy American" differential if the domestic component requirement were raised above the levels that are now used in the end products.

In general, the Navy has had to date few examples of procurements with foreign components approaching 50 percent, and a change in the foreign component rule would probably have little effect on balance-of-payments savings. The Navy has had cases, however, in which only specific foreign firms could meet the critical tolerances and quality requirements for some weapons components. Thus, if the foreign component requirement were reduced to a very low percentage, cases might arise in which superior quality foreign components would be excluded, unless exceptions were made in such cases.

The Army's experience with several procurements of turbines suggests that a reduction in the foreign components allowance would increase costs, but might reduce foreign payments. In one case, the share of foreign components in the winning domestic bid was 42.7 percent, amounting to \$5 million out of a total bid of \$17.8 million. If the share of foreign components had been substantially lowered (say, to 25 percent), this bid would have been higher and the contract would have been awarded to a foreign bidder, with a resulting payment in foreign exchange of \$13 million. If the domestic firm had incorporated 75 percent domestic components in order to retain the 6-percent price preference, he would, as a matter of fact, have lost the bid to the foreign supplier because of the increased cost of domestic components. On the other hand, in this particular case, if the domestic supplier had ignored the 75-percent requirement and forfeited the differential, he would, nevertheless, have won the bid. This illustrates the fact that the incidence of a change in the "components rule" cannot be calculated in advance, since it depends upon the decisions of domestic suppliers as to whether or not the advantage from the price preference is worth the cost of acquiring additional and more expensive domestic components.

The civilian agencies queried also indicated that lowering the foreign components share would have little effect on either procurement costs or foreign exchange saving. TVA reported that most foreign purchases have been in the form of end products manufactured abroad, although some steel products manufactured in the United States—prefabricated reinforcing steel, wire rope, etc.—have contained more than 50 percent foreign steel, and thus have not qualified as American products under the terms of Executive Order 10582, and did not receive the "Buy American" price preference.

The Veterans' Administration reported that no foreign components are apparent in the great bulk of its domestic procurement and that this procurement therefore would be unaffected by lowering the foreign share. About \$2.4 million of VA's domestic procurement has 25-50 percent in foreign components.

The Interior Department stated that most of its procurement (heavy electrical and mechanical equipment) is either so largely domestic or foreign in composition of components that it would expect no effects from a change in the foreign components share.

The experience of the General Services Administration indicates that changing the foreign components share would affect a few items, such as radiation detection systems. Although, in such cases, domestic bidders would have to increase their use of higher priced domestic components, there would be no significant increase in either costs or foreign exchange savings on GSA procurement.

In summary, because of the nature of the problem involved, the survey did not elicit the kind of information upon which an accurate estimate could be made of the balance-of-payments effects and budgetary costs of increasing the domestic components requirement under the Buy American Act.

## *2. Effect on contract administration*

Both defense and civilian agencies were mixed in their estimates as to how lowering the foreign components share would affect contract administration. The Army stated that the substitution of domestic for foreign components would facilitate repair and replacement of equipment and that possible interference with manufacturing schedules by materials control plans of foreign governments would be eliminated. TVA reported that in its experience a contract for steel

turbines with 42 percent foreign components had been difficult to administer, and that TVA accordingly now tends to procure end products either wholly manufactured abroad or in the United States, but without mixed components.

However, a number of agencies foresaw increased problems in contract administration resulting from a change. The Army and Air Force believed that more exceptions to the "Buy American" requirement would be required if the foreign components allowance was reduced. The Veterans' Administration pointed out that the increased number of exceptions required would increase the administrative workload, and the General Services Administration anticipated that the current administrative burden due to investigating competitors' charges that other bidders were offering more than the permitted share of foreign components would be increased.

#### G. FOREIGN PROCUREMENT POLICIES OF OTHER OECD GOVERNMENTS

The State Department has obtained reports from U.S. Embassies on the foreign procurement policies of all OECD countries which indicate that a majority of them do not have legislation covering foreign procurement by government agencies and that in practice procuring agencies have broad administrative discretion in all phases of procurement. Also, procurement decisions are not infrequently handled on the basis of unpublished internal administrative orders. In general, it appears that various practices hamper or restrict the opportunities of foreign firms to compete for government contracts.

Practices which limit the opportunity to compete for government contracts include such things as little or no advance publicity regarding planned government procurement; exclusive preference to domestic firms; regulations which preclude foreign bidding on government contracts; cumbersome administrative or excessive bonding requirements. In some cases bids are open to foreign firms only when domestic sources are unable to meet specifications or supply desired products; in others, bulk supply agreements between government agencies and domestic suppliers provide for selective tender from closed lists of suppliers and confidential negotiations.

In summary, few other countries have defined their "buy national" policies as publicly as the United States, but widespread administrative discretion generally permits them to show preference for domestic firms. National procurement policies are currently under examination in the OECD.

### III. FOREIGN PROCUREMENT FOR USE OUTSIDE THE UNITED STATES

#### A. VOLUME AND SOURCE OF PROCUREMENT

Foreign procurement for use outside the United States has increased by about 9 percent during the last 3 years—from \$1.114 million in fiscal year 1960 to \$1,207 million in fiscal year 1963. Details are given in annex V.

Defense and the Agency for International Development (AID) account for most foreign procurement for oversea programs, with State, the U.S. Information Agency, Commerce, and the Atomic Energy Commission together making up less than 1 percent. AID's share has decreased from 54 percent in 1960 to 25 percent in 1962, while Defense's share has increased correspondingly. The level of AID's oversea expenditures for commodity procurement in 1962 was half what it had been in 1960, reflecting the shift of AID procurement to the United States. Defense offshore expenditures increased by three-fourths during the same period, as a result of increased oversea military commitments.

Foreign procurement in this category has been predominantly in the industrialized countries, although their share decreased from 81 percent of the total to 69 percent between fiscal year 1960 and fiscal year 1962—an absolute decrease of \$76 million. This decrease is due primarily to AID's changing pattern of procurement. AID's procurement in industrialized countries decreased by 72 percent.

Procurement in the countries where the United States has local currency excess to its normal requirements was 2 to 3 percent of the total.

Procurement in all other countries more than doubled from 1960 to 1962, rising from \$172 million to \$360 million. In 1962, \$200 million of this procurement was in the Near and Middle East (Saudi Arabia, Persian Gulf, Iran) and

the Caribbean area (Netherlands Antilles, Trinidad, Aruba, and Venezuela). Petroleum products accounted for most of these purchases, although AID also procured sugar in Turkey and steel in Greece. Other than petroleum purchases in Venezuela, the only significant procurement in Latin America was in Argentina, where AID procured sugar and unmanufactured wool. The Far East was the source of about \$75 million of procurement, about three-fourths consisting of AID procurement in Taiwan (steel, cement, and machinery), Singapore (petroleum products and rubber), Malaya (rubber and tin), and the Philippines (lumber). Defense procured supplies and petroleum products for local operations in Thailand, Taiwan, Vietnam, Laos, Korea, Cambodia, and Ceylon.

Procurement in Europe, outside of the industrialized countries, was about \$20 million, including Defense and AID purchases of steel, machinery, chemicals, and petroleum products. Beginning in fiscal year 1963, AID no longer authorized procurement in Spain. Procurement in Africa has been about \$2 million, mostly local supplies needed for operations in Morocco, Libya, Eritrea, and very small amounts in several other countries.

#### B. PROCUREMENT POLICIES OF AGENCIES

Procurement for use abroad is exempted from the "Buy American" requirement, and agencies have been free to formulate individual policies. After the Presidential balance-of-payments directive in November 1960, the agencies making significant foreign procurements adopted individual policies to reduce their foreign purchases.

##### 1. Defense

Defense Department policy, established in December 1960, provided that procurement be returned to the United States when it was estimated that the cost (including transportation and handling costs) would not exceed the cost of foreign supplies or services by more than 25 percent. The 25-percent differential has been somewhat flexible in application, since by the nature of the procurement involved, prices are necessarily determined from estimates by the procurement officers, rather than based on actual bids received in response to bid invitations. Furthermore, different price differentials have been used in certain procurement activities. Procurement of items unavailable in the United States or subject to international agreements was exempted from the 25-percent rule.

In July 1962 Defense issued revised policies, designed to lessen Defense foreign contract awards. Foreign procurements are to be "held to an absolute minimum" and may be made only when they are: (1) subject to international agreements; (2) not more than \$500; (3) not more than \$10,000 and required by compelling emergencies; (4) perishable items; (5) subject to advance determinations that a requirement can only be filled by foreign supplies after previous consideration of the feasibility of foregoing fulfillment of the requirement or providing a U.S. substitute for it. Subject to the above exceptions, all procurement not exceeding \$10,000 and procurement of more than \$10,000 if the cost of the domestic products is estimated to be not more than 50 percent in excess of the cost of foreign supplies are to be awarded to domestic suppliers. (Transportation and handling costs, as well as any applicable duties, are included in both domestic and foreign prices.) In cases where it is anticipated that the domestic price is more than 50 percent above the foreign price, the matter is referred to the Secretary of Defense for determination.

Since the inauguration of these more restrictive policies, Defense procurement of supplies abroad for use abroad has decreased considerably. In the first 9 months of fiscal year 1963, during most of which the new policy was in effect, such procurement amounted to \$312.4 million including construction and services, but excluding petroleum, military assistance program procurement, and procurement from nonappropriated funds.<sup>9</sup> Of this total, contracts for foreign services amounted to \$149.5 million. The reasons for this foreign procurement are summarized below.

<sup>9</sup> Differences in coverage of data make comparability with annex V impossible.

*Defense foreign procurement of supplies for use outside the United States,  
July 1962 to March 1963*

[New contract awards. Dollar amounts in millions]

Reasons for exceptions to requirement for U.S. procurement	Value	Percent
Treaty or executive agreement.....	\$44.9	15
Procurements of \$500 or less.....	21.7	7
Emergency procurements under \$10,000.....	1.3	( <sup>1</sup> )
Perishable subsistence items.....	54.8	18
Requirements which can be filled only by foreign supplies or services.....	123.4	41
Cuban crisis.....	.6	( <sup>1</sup> )
Excess foreign currencies.....	5.5	2
All other.....	49.3	16
Subtotal.....	301.6	100
Construction.....	10.8	-----
Total.....	312.4	-----

<sup>1</sup> Less than 0.5 percent.

The hard currency countries, particularly Germany, France, and Japan were the source of 87 percent of the procurement of supplies and services, excluding petroleum during the July 1962–March 1963 period.

Under the 25 percent differential applied by Defense until July 1962, \$47.1 million of procurement normally placed with foreign sources was returned to the United States during fiscal year 1962 at an additional cost of \$10.7 million or about 23 percent. Under Defense's new policy during the first 9 months of fiscal year 1963, \$60.5 million of such procurement was returned to the United States at an added cost of \$19.1 million or 32 percent.

## 2. Agency for International Development

Most of the commodities purchased for use in foreign economic assistance activities administered by AID are financed with program rather than administrative funds. Such program purchases are largely made by the borrowers or by the cooperating countries, their agents or importers. Relatively small amounts of commodities financed with program funds are procured by or through U.S. Government agencies.

AID procurement policy in 1963 is an intensification of the policy under which its predecessor agencies operated: (a) U.S. source and origin have been required for commodity procurement financed with loan funds since October 1959, and (b) "limited worldwide" source and origin have been required for commodity procurement with grant funds for authorizations issued after December 5, 1960. The term "limited worldwide" encompasses free world countries exclusive of the 19 countries listed in the Presidential Determination under section 602(a), Public Law 87-195. For the most part these countries are industrialized, have relatively hard currencies and a tendency to hold and accumulate foreign reserves. Most of Western Europe falls in this group, as well as Japan, Canada, Australia, New Zealand, and Hong Kong (dropped in 1962). A major shift of AID procurement away from Western Europe toward the United States and the less-developed countries has resulted from the application of these policies, although there are still in the pipeline funds obligated and subobligated prior to the establishment of these limitations on procurement sources. Expenditures of such funds (on a worldwide basis) will continue until these funds are exhausted.

Procurement with post-1959-60 funds can be undertaken in the hard currency countries only on waivers, which are granted by AID in Washington, except for limited waiver authority delegated to directors of AID missions abroad. The total value of waivers granted has also fallen significantly. During the first 6 months of the new policy in fiscal year 1961, waivers were approved for \$61.8 million of procurement. During the whole of fiscal year 1962 only \$18.1 million of waiver requests were approved, of which over three-fourths were

replacement parts and additions to standardized equipment not available outside Japan or Western Europe. Nearly all the other waivers were for emergency procurements or for items needed on short delivery.

Some procurement against grants is taking place in the developing countries under the present policies, so that a growing share of AID's foreign procurement is in these countries, most of which are recipients of U.S. aid. AID procurement provides a supplement to our grants and loans to them.

Recently AID has decided to stop financing the procurement of commodities of which the United States is a net importer. AID is taking this step to reduce its foreign payments. At this writing, commodities to be excluded from AID financing include sugar, petroleum and its products, manufactured wool, aluminum, tin, tropical lumber, pulp and paper, crude rubber, and allied gums. Since 60 percent of AID's 1962 expenditures for procurement of commodities in the developing countries consisted of these U.S. net-importer items, this new policy should have considerable effect in redirecting AID procurement, both to the United States and among the developing countries. For those commodities in which the U.S. competitive advantage is great enough to overcome such other factors as extra transportation costs, longer delivery time, etc., procurement in the United States should increase. For other products, those developing countries producing them will continue to benefit from AID-financed procurement, although their earnings may be partially offset by diminished sales of items in the "net importer" group. Countries whose sales under AID financing consisted mostly of "net importer" items will be the losers.

Some idea of the budgetary savings possible as a result of AID's present policies permitting procurement in the developing countries as opposed to the United States exclusively, can be gained from the results of a recent survey made by AID comparing costs in the United States with those in the less developed countries.

The cost differentials between the United States and the developing countries vary widely between products and also between transactions. For some commodities, the unit price in the United States is less than the foreign price, so that the cheaper foreign C. & F. price arises solely from the higher freight costs on U.S. products. Fertilizer for the Far East from Europe and north Africa falls in this category, and U.S. procurement would add at most less than 8 percent to C. & F. cost. On most other products the difference in C. & F. cost is much greater; e.g., cement from the United States is 160 to 170 percent more expensive than cement bought in Thailand and Taiwan for use in the Far East.

Projection of these cost relationships into meaningful aggregates is not feasible because of the limitations upon the size and representativeness of the sample of transactions, and because of necessary elements of estimation in the development of comparable U.S. cost figures.

Procurement for our foreign aid programs is not as directly related to our foreign trade policy as procurement for use within the United States. The latter constitutes an import, and therefore restrictions on it are in effect non-tariff restrictions on imports, one of the areas in which the United States will be bargaining in coming trade negotiations. On the other hand, much of the procurement for overseas programs is for the benefit of foreign countries rather than for the direct benefit of the United States. Under these conditions the United States is justified in obtaining the supplies for overseas programs wherever U.S. interests dictate. We are supplying resources to other nations, and should use our own judgment as to the degree to which we wish to supply "real" U.S. resources (U.S. procurement) or financial resources (funds for the purchase of resources elsewhere).

AID procurement with administrative funds is a very small portion of the total. Procedures are similar to those followed by State.

### 3. Other agencies

As shown in annex V, total procurement of supplies abroad for use abroad by agencies other than Defense and AID amounted, in fiscal year 1962, to \$2.5 million.

Foreign service posts formerly were permitted to purchase foreign goods outside the United States for use abroad as long as delivered costs were equal to or lower than the delivered costs of comparable U.S. goods. Subsequent to the issuance of the President's Balance-of-Payments Directive of November 16, 1960, State prohibited foreign procurement on transactions exceeding \$1,000, unless the delivered cost of the foreign commodity was 30 percent less than the delivered cost of the comparable U.S. item. Other agencies procuring abroad for their foreign programs have followed varying policies.

ANNEX I.—Foreign procurement of commodities for use in the United States—Breakdown by type of exemption from “Buy American” requirement

[In thousands of dollars]

	Fiscal year 1960				Fiscal year 1961				Fiscal year 1962			
	Unreasonable cost in United States	Unavailable in United States	Special international arrangements	Total	Unreasonable cost in United States	Unavailable in United States	Special international arrangements	Total	Unreasonable cost in United States	Unavailable in United States	Special international arrangements	Total
Atomic Energy Commission.....	1,360	1,000	-----	2,360	570	830	-----	1,400	494	1,357	-----	1,841
U.S. Information Agency.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Tennessee Valley Authority.....	11,300	-----	-----	11,300	1,500	-----	-----	1,500	1,100	-----	-----	1,100
Commerce.....	-----	119	-----	119	-----	86	-----	86	-----	272	-----	272
Agriculture.....	-----	25	-----	25	-----	56	-----	56	-----	285	-----	285
Veterans' Administration.....	400	1,900	-----	2,300	800	1,700	-----	2,500	800	2,300	-----	3,100
Interior.....	3,066	13	-----	3,079	3,284	13	-----	3,297	1,418	56	-----	1,474
Treasury.....	414	-----	-----	414	-----	35	-----	35	-----	206	-----	206
Health, Education, and Welfare.....	20	-----	-----	20	355	-----	-----	355	831	48	-----	879
Defense.....	13,285	139,015	<sup>1</sup> 37,600	189,900	18,475	122,925	<sup>1</sup> 67,800	209,200	22,981	123,660	<sup>1</sup> 90,100	236,641
Army.....	(1,000)	(30,000)	<sup>1</sup> (7,400)	(38,400)	(1,400)	(33,000)	<sup>1</sup> (13,900)	(48,300)	(1,500)	(15,700)	<sup>1</sup> (47,600)	(64,800)
Navy.....	(12,285)	<sup>2</sup> (108,115)	<sup>1</sup> (18,900)	(139,300)	(16,875)	<sup>2</sup> (89,025)	<sup>1</sup> (29,600)	(135,500)	(16,781)	(67,319)	<sup>1</sup> (30,200)	(114,300)
Air Force.....	-----	(900)	<sup>1</sup> (11,300)	(12,200)	(200)	(900)	<sup>1</sup> (24,300)	(25,400)	(1,000)	(600)	<sup>1</sup> (12,000)	(13,600)
Defense Supply Agency.....	-----	-----	-----	-----	-----	-----	-----	-----	<sup>2</sup> (39,941)	(300)	-----	(43,941)
National Aeronautics and Space Administration.....	-----	94	-----	94	-----	125	-----	125	-----	315	-----	315
Post Office.....	-----	-----	-----	-----	25	-----	-----	25	-----	27	-----	27
Panama Canal.....	400	-----	<sup>3</sup> 3,460	3,860	300	-----	<sup>3</sup> 3,880	4,180	623	-----	<sup>3</sup> 4,100	4,723
General Services Administration.....	34	10,534	-----	10,568	354	7,371	-----	7,725	654	12,297	-----	12,951
Grand total.....	30,279	152,700	41,060	224,039	25,663	133,141	71,680	230,484	28,891	140,723	94,200	263,814
Percent.....	(14)	(68)	(18)	(100)	(11)	(58)	(31)	(100)	(12)	(53)	(35)	(100)

<sup>1</sup> Exemption under the Canadian agreement.

<sup>2</sup> Includes purchases of petroleum products made on a competitive basis; however,

POL is on exempted list. Such purchases amounted to \$76,400,000 in 1960, \$80,300,000 in 1961, \$85,100,000 in 1962.

<sup>3</sup> Exemption under agreement with Panama.

## ANNEX II.—Foreign procurement for use in the United States—Breakdown by geographic origin

[In thousands of dollars]

	Fiscal year 1960				Fiscal year 1961				Fiscal year 1962			
	19 countries	Excess currency countries	All other countries	Total	19 countries	Excess currency countries	All other countries	Total	19 countries	Excess currency countries	All other countries	Total
Atomic Energy Commission .....	2,300	60	-----	2,360	1,324	60	16	1,400	1,500	41	300	1,841
U.S. Information Agency <sup>1</sup> .....	11,300	-----	-----	11,300	1,500	-----	-----	1,500	1,100	-----	-----	1,100
Tennessee Valley Authority .....	119	-----	-----	119	86	-----	-----	86	272	-----	-----	272
Commerce .....	25	-----	-----	25	56	-----	-----	56	285	-----	-----	285
Agriculture .....	285	-----	2,015	2,300	700	-----	1,800	2,500	700	-----	2,400	3,100
Veterans' Administration .....	3,079	-----	-----	3,079	3,297	-----	-----	3,297	1,474	-----	-----	1,474
Interior .....	414	-----	-----	414	35	-----	-----	35	206	-----	-----	206
Treasury .....	20	-----	-----	20	355	-----	-----	355	879	-----	-----	879
Health, Education, and Welfare .....	83,300	500	106,100	189,900	94,100	500	114,600	209,200	124,700	841	111,100	236,641
Defense .....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Army .....	(20,000)	-----	(18,400)	(38,400)	(23,100)	-----	(25,200)	(48,300)	(51,600)	-----	(13,200)	(64,800)
Navy .....	(51,300)	(500)	(87,500)	(139,300)	(45,800)	(500)	(89,200)	(135,500)	(51,200)	(200)	(62,900)	(114,300)
Air Force .....	(12,000)	-----	(200)	(12,200)	(25,200)	-----	(200)	(25,400)	(13,600)	-----	-----	(13,600)
Defense Supply Agency .....	-----	-----	-----	-----	-----	-----	-----	-----	(8,300)	(641)	(35,000)	(43,941)
National Aeronautics and Space Administration .....	94	-----	-----	94	125	-----	-----	125	315	-----	-----	315
Post Office .....	-----	-----	-----	-----	25	-----	-----	25	27	-----	-----	27
Canal Zone .....	369	-----	3,491	3,860	334	-----	3,846	4,180	433	-----	4,290	4,723
General Services Administration .....	199	-----	10,369	10,568	340	-----	7,385	7,725	986	-----	11,965	12,951
Grand total .....	101,504	560	121,975	224,039	102,277	560	127,647	230,484	132,977	882	130,055	263,814
Percent .....	(45)	( <sup>1</sup> )	(55)	(100)	(45)	( <sup>1</sup> )	(55)	(100)	(51)	( <sup>1</sup> )	(49)	(100)

<sup>1</sup> Negligible.



## ANNEX III.—Foreign procurement for use in the United States by commodity breakdown

[Dollar amounts in thousands]

	Fiscal year 1960	Percent of total	Fiscal year 1961	Percent of total	Fiscal year 1962	Percent of total
Military items.....	\$5,363	2	\$5,761	3	\$6,661	3
Weapons.....	1,502		803		1,425	
Ammunition and explosives.....	772		4,958		3,825	
Guided missiles.....	3,089				1,411	
Aircraft and landing equipment and parts.....	17,242	8	43,501	20	58,023	22
Aircraft and air frame structural components.....	10,301		22,564		40,065	
Aircraft components and accessories.....			731		673	
Aircraft launching, landing, ground-handling equipment.....	103		360		272	
Engines, turbines, and components <sup>1</sup> .....	6,838		19,846		16,988	
Transportation equipment.....	558	(?)	2,939	1	1,465	1
Ships, small craft, pontoons, floating docks <sup>2</sup> .....	72		993			
Railway equipment.....			124		552	
Motor vehicles, trailers and cycles, and components.....	486		1,822		913	
Electronics and communication equipment.....	15,867	8	12,808	6	19,695	7
Communication equipment.....	15,480		12,465		19,198	
Electrical and electronic equipment components.....	387		343		497	
Electric wire, power, and distribution equipment.....	12,359	7	2,442	1	2,076	
Fuels, lubricants, oils, and waxes.....	76,919	34	80,665	35	85,121	32
Medical, dental, and veterinary equipment.....	2,332	1	2,768	1	2,499	1
Metal bars, sheets and shapes <sup>1</sup> .....	2,354	1	2,874	1	5,501	2
Purchases for the national stockpile.....	10,369	5	7,386	3	11,967	5
Abaca.....	3,361		4,067		4,332	
Sisal.....	7,008		3,148		7,635	
Diamond dies.....			171			
Construction materials.....	748	(?)	355	(?)	1,026	(?)
Prefabricated structures and scaffolding.....	246				389	
Lumber, millwork, plywood veneer.....	72		74		102	
Construction and building materials.....	430		281		535	

See footnotes at end of table, p. 314.

## ANNEX III.—Foreign procurement for use in the United States by commodity breakdown—Continued

[Dollar amounts in thousands]

	Fiscal year 1960	Percent of total	Fiscal year 1961	Percent of total	Fiscal year 1962	Percent of total
Industrial machinery and equipment.....	\$1,536	1	\$1,803	1	\$1,300	(?)
Metalworking machinery.....	727		691		767	
Special industrial machinery.....	56		24		51	
Construction machinery.....	63		100		172	
Miscellaneous machinery and equipment.....	690		988		310	
Clothing and subsistence items.....	22,200	10	28,867	13	30,543	12
Textiles, leather, and furs.....	166		151		41	
Clothing and individual equipment.....	107		59		42	
Subsistence.....	21,927		28,657		30,460	
Scientific and office equipment and books <sup>1</sup> .....	1,335	1	1,234	1	3,575	1
Instruments and laboratory equipment.....	636		561		2,723	
Photographic equipment.....	410		300		326	
Office machines and data processing equipment.....	45		83		285	
Office supplies and services.....	92		110		91	
Books, maps, other publications.....	152		180		150	
Miscellaneous consumer goods.....	586	(?)	3,038	1	900	(?)
Furniture.....	273		2,650		516	
Musical instruments, phonographs, and home radios.....	44		69		119	
Toiletries.....	269		319		265	
Miscellaneous metal manufactures.....	2,235	1	965	(?)	3,873	2
Refrigeration and air conditioning.....	30		47		81	
Pumps and compressors.....	581		36		12	
Pipe, tubing, hose, and fittings <sup>2</sup> .....	1,494		29		1,395	
Valves <sup>2</sup> .....			597		1,911	
Hand tools.....	130		256		474	
Miscellaneous defense procurement.....	48,259	20	26,932	11	26,523	10
Miscellaneous, not elsewhere classified.....	3,777	2	6,146	3	3,061	1
Rope, cable, chain, and fittings.....	1,148		879		1,188	
Hardware and abrasives.....			25		18	
Chemicals and chemical products.....	790		549		359	
Training aids and devices.....					22	
Food preparation equipment and supplies.....	124		85		38	
Cleaning equipment and serving equipment.....	79		95		80	
Agricultural supplies.....			20			
Live animals.....			215		104	
Nonmetallic fabricated materials.....			57		24	
Ores, minerals, and their primary products <sup>4</sup> .....	221		293		849	
Jute twine.....			25		27	
Unidentified.....	1,415		3,905		452	
Total.....	224,039	100	230,484	100	263,814	100

<sup>1</sup> Engines and turbines for installation in aircraft except \$1,400,000 purchased by Interior in fiscal year 1961.

<sup>2</sup> Less than 0.5 percent.

<sup>3</sup> Navy procurement for shipbuilding is shown under separate commodity categories.

<sup>4</sup> Includes Navy purchases for building and equipping ships.

ANNEX IV.—Foreign procurement by the Defense Department—For use in the United States

[In thousands of dollars]

	Fiscal year 1960				Fiscal year 1961				Fiscal year 1962				
	Air Force	Army	Navy	Total	Air Force	Army	Navy	Total	Air Force	Army	Navy	DSA	Total
Aircraft.....	5,400	4,692	7,150	17,242	18,000	4,550	19,513	42,063	400	39,677	17,951	-----	58,028
Aircraft and air frame structural components.....	-----	-----	(209)	(209)	-----	-----	(14)	(14)	-----	-----	(18)	-----	(18)
Aircraft launching, landing, ground handling equipment.....	-----	-----	(103)	(103)	-----	-----	(360)	(360)	-----	-----	(272)	-----	(272)
Engines, turbines and accessories.....	-----	-----	(6,838)	(6,838)	-----	-----	(18,408)	(18,408)	-----	-----	(16,988)	-----	(16,988)
Aircraft components and accessories.....	-----	-----	-----	-----	-----	-----	(731)	(731)	-----	-----	(673)	-----	(673)
No detailed breakdown.....	(5,400)	(4,692)	-----	(10,092)	(18,000)	(4,550)	-----	(22,550)	(400)	(39,677)	-----	-----	(40,077)
Missiles.....	-----	3,089	-----	3,089	-----	3,499	-----	3,499	100	1,311	-----	-----	1,411
Ships.....	-----	72	2,677	2,749	-----	993	3,840	4,833	-----	-----	8,046	1,400	9,446
Instruments and laboratory equipment.....	-----	-----	(294)	(294)	-----	-----	(210)	(210)	-----	-----	(1,419)	-----	(1,419)
Metal bars, sheets, and shapes.....	-----	-----	(2,281)	(2,281)	-----	-----	(2,858)	(2,858)	-----	-----	(4,101)	(1,400)	(5,501)
Ores, minerals, and primary products.....	-----	-----	(102)	(102)	-----	-----	(175)	(175)	-----	-----	(615)	-----	(615)
Valves.....	-----	-----	-----	-----	-----	-----	(597)	(597)	-----	-----	(1,911)	-----	(1,911)
No detailed breakdown.....	-----	(72)	-----	(72)	-----	-----	(993)	(993)	-----	-----	-----	-----	-----
Tanks and autos.....	-----	46	-----	46	-----	1,282	-----	1,282	-----	-----	484	-----	484
Weapons.....	-----	251	1,251	1,502	200	520	83	803	-----	-----	802	-----	1,425
Ammunition.....	-----	487	285	772	-----	4,525	433	4,958	-----	1,837	1,988	-----	3,825
Electronic and communication equipment.....	6,200	7,257	2,023	15,480	6,400	4,747	1,318	12,465	12,300	5,240	1,641	-----	19,181
Petroleum products.....	200	-----	76,415	76,615	200	-----	80,325	80,525	-----	-----	58,119	26,800	84,919
Subsistence.....	-----	18,437	-----	18,437	-----	25,248	-----	25,248	-----	13,176	-----	13,200	26,376
Building supplies.....	-----	37	254	291	-----	164	142	306	-----	128	200	-----	328
Textiles and clothing.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	35	35
Production equipment.....	-----	49	1,449	1,498	-----	26	1,366	392	-----	270	1,131	-----	401
Pipe, tubing, hose, fittings.....	-----	-----	1,229	1,229	-----	-----	29	29	-----	-----	1,110	-----	1,110
Hand tools.....	-----	-----	124	124	-----	-----	54	54	-----	-----	-----	-----	-----
Electric wire, power and distribution equipment.....	-----	-----	315	315	-----	-----	275	275	-----	-----	506	-----	506
Furniture.....	-----	-----	253	253	-----	-----	2,618	2,618	-----	-----	431	-----	431
Photographic equipment.....	400	-----	-----	400	300	-----	-----	300	200	-----	-----	-----	200
Rope, cable, chains, and fittings.....	-----	-----	734	734	-----	-----	868	868	-----	-----	1,013	-----	1,013
Medical and dental.....	-----	-----	1,865	1,865	-----	-----	1,750	1,750	-----	-----	999	-----	999
Miscellaneous.....	-----	3,983	44,276	48,259	300	2,746	23,886	26,932	600	2,054	21,363	2,506	26,523
Total.....	12,200	38,400	139,300	189,900	25,400	48,300	135,500	209,200	13,600	64,800	114,300	43,941	236,641

<sup>1</sup> Metalworking machinery.

## ANNEX V.—Foreign procurement for use outside the United States

[Dollar amounts in thousands]

	Fiscal year 1960				Fiscal year 1961				Fiscal year 1962			
	19 countries	Excess currency countries	All other countries	Total	19 countries	Excess currency countries	All other countries	Total	19 countries	Excess currency countries	All other countries	Total
Atomic Energy Commission.....					\$11			\$11				
U.S. Information Agency.....	\$112			\$112	222			222	\$556			\$556
Tennessee Valley Authority.....												
Commerce.....	118			118	93		\$412	505	660		\$237	897
Agriculture.....												
Veterans' Administration.....												
Interior.....												
Treasury.....												
Health, Education, and Welfare.....												
Defense.....	400,284	\$2,331	\$107,849	510,464	452,631	\$4,305	159,274	616,210	683,070	\$3,262	220,228	906,560
Army.....	(268,847)	(931)		(269,778)	(312,312)	(2,005)		(314,317)	(413,825)	(1,812)		(415,637)
Navy.....	(91,437)	(1,400)	(103,349)	(196,186)	(100,219)	(2,300)	(152,974)	(255,493)	(119,745)	(990)	(125,428)	(246,073)
Air Force.....	(40,000)		(4,500)	(44,500)	(40,100)		(6,300)	(46,400)	(94,200)		(7,300)	(101,500)
Defense Supply Agency.....								(55,300)		(500)	(87,500)	(143,350)
Agency for International Development.....	449,000	39,000	64,000	602,000	496,000	23,000	69,000	588,000	139,000	19,000	140,000	298,000
State.....	756	19	156	931	823	133	170	1,126	765	191	76	1,032
General Services Administration.....												
National Aeronautics and Space Administration.....												
Post Office.....												
Canal Zone.....												
Grand total.....	900,270	41,350	172,005	1,113,625	949,780	27,438	228,856	1,206,074	824,051	22,453	360,541	1,207,045
Percentage.....	81	3	16	100	79	2	19	100	68	2	30	100

GENERAL SERVICES ADMINISTRATION,  
Washington, D.C., May 21, 1964.

HON. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
Congress of the United States,  
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your letter of May 13, 1964, enclosing a copy of a letter received by you from Senator Jacob K. Javits requesting certain information with respect to the impact of the administration of the Buy American Act (47 Stat. 1520, as amended; 41 U.S.C. 10 a-d) on the cost of GSA procurement.

In response to the inquiry, there is enclosed as attachment A answers to those questions applicable to GSA in the same sequence listed in Senator Javits' letter.

If there is any further information which you or the subcommittee may desire in this regard, we will be pleased to furnish it upon your request.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

ATTACHMENT A

GENERAL SERVICES ADMINISTRATION RESPONSES TO QUESTIONS OF THE SUBCOMMITTEE ON DEFENSE PROCUREMENT, JOINT ECONOMIC COMMITTEE, CONCERNING THE IMPACT OF THE BUY AMERICAN ACT ON THE COST OF FEDERAL PROCUREMENT

1. Pursuant to the provisions of Executive Order No. 10582, December 17, 1954 (19 F.R. 8723), GSA applies a price differential of 6 percent in favor of domestic products where the low acceptable bid offers products of foreign origin. In supply contracts (as distinguished from construction, alteration, or repair contracts) an additional 6 percent price differential (a total of 12 percent) is applied where the bidder submitting the low acceptable domestic bid is either a small business concern or a labor surplus area concern. The additional 6 percent price differential for labor surplus area concerns has been applied since the issuance of Executive Order No. 10582 while the additional 6 percent preference for small business firms was adopted for application to GSA supply contracts on January 29, 1963. Since these price differentials are prescribed as the general rule pursuant to the Executive order, they are so applied. However, based upon a recent recommendation by the Cabinet Committee on Balance of Payments, a 50-percent price preference factor is now being given to domestic suppliers over foreign suppliers when procuring for use outside the United States. This new preference policy for domestic products acquired for use abroad (not subject to the Buy American Act) adopted in March 1964 has not been in effect long enough to have acquired meaningful statistics indicating the amounts involved.

2. Under the Buy American Act, the only portions of GSA's procurement not affected by the statute are those portions acquired for use outside the United States and those portions not available in the United States in reasonable quanti-

ties of satisfactory quality. At least 97 percent of GSA's annual procurement for fiscal years 1961, 1962, and 1963 was subject to the Buy American Act. However, application of the Buy American Act and the Executive order has resulted in only a relatively small percentage of our total procurements being placed with foreign sources.

3. As our answer to question No. 2 indicated, only a very small percentage of GSA's total procurements for use in the United States are placed with foreign sources. As a consequence, the adverse impact on the balance of payments of our application of "Buy American" policy is minimal. We have no specific estimates of this minimal amount.

The committee, however, may be interested to know that our policy of providing supply support to military bases abroad to the greatest extent possible from domestic sources has resulted in balance-of-payments savings of \$71.4 million in 1961, \$84.4 million in 1962, and \$109.8 million in 1963. In addition, domestic disposal of surplus strategic and critical materials produced primarily or entirely outside the United States avoided gold outflow estimated at \$65.7 million in 1961, \$84.9 million in 1962, and \$88.5 million in 1963. Therefore, our total reduction in the deficit in the balance of payments for the 3 fiscal years aggregates \$504.7 million.

4. Additional budgetary costs to GSA due to application of the Buy American Act to GSA procurements are estimated to approximate \$100,000 annually.

5. Records have not been maintained to reflect whether GSA has at any time waived the application of the Buy American Act to any substantial purchase of articles and supplies or construction of public buildings, but we have no present recollection of any such waivers.

6. Not applicable.

7. Not applicable.

8. The suggestion of the Commission on Foreign Economic Policy in January 1954 involves negotiations with foreign governments and basically relates to the foreign economic policy of the United States. With respect to this question, therefore, we would defer to the Department of State.

9. The price differentials being applied by GSA in favor of domestic products accord with the provisions of Executive Order No. 10582 and are applied uniformly and consistently on the basis of established criteria set forth, with respect to construction, in the Federal Procurement Regulations as subpart 1-6.2 and, with respect to supply, in General Services Administration Procurement Regulations as subpart 5-6.50, copies attached. The Federal Procurement Regulation on construction has been published in the Federal Register. The GSPR on supply is being converted to a governmentwide regulation for inclusion and publication in the Federal Procurement Regulations and the Federal Register at an early date. Reference to the Buy American Act and Executive Order No. 10582 is contained in prescribed "Buy American" clauses set forth in the Federal Procurement Regulations and printed on Standard Form 23A, general provisions (construction contract) and Standard Form 32, general provisions (supply contract).

GENERAL SERVICES ADMINISTRATION

FPR CIRCULAR NO. 5

Washington 25, D. C.

January 20, 1960

---

**FEDERAL PROCUREMENT REGULATIONS**

---

1. Material Transmitted. The attached pages contain a revised Table of Parts, revisions to sections 1-6.201, 1-6.202, and 1-16.201-5, and new Subpart 1-7.6.

2. Summary of Additions or Revisions.

(a) Sections 1-6.201 and 1-6.202 are amended to clarify the application of the Buy American Act to Panamanian material used in the Canal Zone.

(b) Section 1-16.201-5 is amended to omit the statement that Standard Form 18 is available in cut sheets and die-impressed stencils.

(c) New Subpart 1-7.6 prescribes a clause entitled "Price Adjustment for Suspension, Delay, or Interruption of the Work" for use in fixed-price construction contracts. While agencies are free to decide whether a clause on this subject is to be included in a contract, this clause, and no other, must be used whenever an agency desires to provide for suspension of the work for the convenience of the Government, or to provide for administrative relief for unreasonable periods of Government delay, or both. The regulation, however, does not preclude, in lieu of the prescribed general clause, use of a contract clause providing for suspension of the work for limited, specific purposes.

Prescription of the clause on this optional-use basis will provide agencies an opportunity to gain experience which will be helpful in future consideration of the clause for inclusion, on a mandatory basis, in Standard Form 23A, General Provisions (Construction Contracts).

3. Explanation of the Price Adjustment for Suspension, Delay, or Interruption of the Work Clause. Paragraph (a) vests in the contracting officer a privilege to suspend the work for the convenience of the Government. This provides a basis for suspending the work in addition to those in other contract clauses, such as the Changes clause of Standard Form 23A.

Paragraph (b) provides for price adjustment for increased costs occasioned the contractor by certain Government-caused delay, whether flowing from a suspension of work order or other circumstances. Any increase in the cost of performance properly and directly related to the delay caused by the Government is allowable. However, adjustment is authorized under this clause only if the delay is:

- (a) For an unreasonable period of time;
- (b) Without the fault or negligence of the contractor; and

(c) The result solely of an act, or failure to act, of the contracting officer in the administration of the contract, including an act or failure to act incident to changes or changed conditions.

Where all of the foregoing are met, a price adjustment will be made if both of the following conditions are also met:

(a) Notice has been given by the contractor to the contracting officer, except where a suspension order was issued, of the act or failure to act involved. No provision is contained in the clause whereby the contracting officer may waive a failure to comply with this notice requirement. However, this will not preclude adjustment where a notice of delay has been given by the contractor under another clause of the contract.

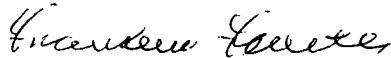
(b) A claim is duly filed. The amount of the claim may include only costs attributable to the period of delay which is found to be unreasonable.

The clause concerns price rather than time adjustment for delay and does not preclude adjustment of the time of performance under other appropriate clauses of the contract, such as Clause 5 (Termination for Default-Damages for Delay-Time Extensions).

#### 4. Effective Dates.

(a) The revisions of sections 1-6.201, 1-6.202, and 1-16.201-5 are effective immediately.

(b) The new Subpart 1-7.6 is effective July 1, 1960.



FRANKLIN FLOETE  
Administrator of General Services





## TABLE OF PARTS

**Title 41—PUBLIC CONTRACTS****Chapter I—Federal Procurement  
Regulations**

Part	
1-1	General.
1-2	Procurement by formal advertising.
1-3	Procurement by negotiation.
→ 1-6	Foreign purchases.
1-7	Contract clauses.
1-11	Federal, State, and local taxes.
1-12	Labor.
1-16	Procurement forms.

CONTENTS OF PART 1-6 FOREIGN PURCHASES

**PART 1-6—FOREIGN PURCHASES**

**Subpart 1-6.2—Buy American Act—  
Construction Contracts**

Sec.		Sec.		
1-6.200	Scope.	1-6.202-3	Panamanian material used in Canal Zone.	←
1-6.201	Definitions.	1-6.202-4	Noting exceptions and findings.	←
1-6.202	Buy American policy.	1-6.203	Unreasonable cost determination.	
1-6.202-1	General.	1-6.203-1	General.	
1-6.202-2	Determining domestic construction material.	1-6.203-2	Cost computation.	
		1-6.203-3	Deviations by agency head.	
		1-6.203-4	Small business.	
		1-6.204	Invitation provision.	
		1-6.205	Contract clause.	
		1-6.206	Violations.	

**SUBPART 1-6. 2 BUY AMERICAN ACT—  
CONSTRUCTION CONTRACTS**

1-6, 202-3

**Subpart 1-6.2—Buy American Act—  
Construction Contracts**

**1-6.200 Scope.**

This subpart implements the Buy American Act (41 U.S.C. 10a-10d) and the policies set forth in Executive Order 10582, December 17, 1954 (3 CFR Supp.), with respect to construction contracts. This subpart does not apply to construction contracts (a) executed on Standard Form 19, Invitation, Bid, and Award (Construction, Alteration, or Repair) (small-amount construction contract form), or (b) not involving appropriated funds.

**1-6.201 Definitions.**

As used in this subpart, the following definitions apply:

(a) "Construction" means construction, alteration, or repair of any public building or public work.

(b) "Construction material" means any article, material, or supply brought to the construction site for incorporation in the building or work.

(c) "Component" means any article, material, or supply directly incorporated in construction material.

(d) "Domestic construction material" means an unmanufactured construction material which has been mined or produced in the United States, or a manufactured construction material which has been manufactured in the United States if the cost of its components which are mined, produced, or manufactured in the United States exceeds 50 percent of the cost of all its components.

(e) "Nondomestic construction material" means a construction material other than a domestic construction material.

(f) "United States" means the States, the District of Columbia, Puerto Rico, American Samoa, the Canal Zone, the Virgin Islands, and any other place subject to its jurisdiction.

**1-6.202 Buy American policy.**

**1-6.202-1 General.**

Only domestic construction material shall be used in the performance of contracts for construction in the United States made by executive agencies, except for particular material as to which it is determined:

(a) By the agency head, that to make such requirement is impracticable;

(b) In accordance with agency procedures, that domestic construction material is unavailable in sufficient and reasonably available commercial quantities and of a satisfactory quality; or

(c) In accordance with section 1-6.203, that to make such requirement would unreasonably increase the cost.

**1-6.202-2 Determining domestic construction material.**

In determining whether a construction material is a domestic construction material:

(a) Only the construction material and its components shall be considered.

(b) A component shall be considered to have been mined, produced, or manufactured in the United States (regardless of its source in fact) if the construction material in which it is incorporated is manufactured in the United States and the component is of a class or kind determined by the agency concerned to be not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

**1-6.202-3 Panamanian material used in Canal Zone.**

Construction material mined, produced, or manufactured in the Republic of Panama, when purchased for use in the Canal Zone, is exempted from the provisions of the Buy American Act (under item 3 of the Memorandum of

## PART 1-6 FOREIGN PURCHASES

1-6.202-3

Understandings Reached ancillary to the Treaty of Mutual Understanding and Cooperation between the United States of America and the Republic of Panama, signed January 25, 1955).

**1-6.202-4 Noting exceptions and findings.**

Exceptions for nondomestic construction material because use of particular domestic construction material would be impracticable or would unreasonably increase the cost or because domestic construction material is unavailable shall be noted in the contract. Findings justifying such exceptions shall be made a matter of public record.

**1-6.203 Unreasonable cost determination.**

**1-6.203-1 General.**

A determination shall be made that the use of domestic construction material would unreasonably increase the cost where, with respect to each particular construction material:

(a) A bid or proposal offers nondomestic construction material (not listed as excepted in the invitation for bids or request for proposals), the cost of which, plus 6 percent thereof, is less than the cost of comparable domestic construction material; and

(b) That bid or proposal offers the lowest price of any received, after adding to each bid or proposal, for evaluation purposes, 6 percent of the cost of all nondomestic construction material, which qualifies under paragraph (a) above, offered in each bid or proposal.

**1-6.203-2 Cost computation.**

The cost of construction material shall be computed as including all costs of delivery to the construction site. The cost of nondomestic construction material shall also include any applicable duty. Computations shall be based on costs on the date of opening of bids or proposals.

**1-6.203-3 Deviations by agency head.**

Deviations from the requirements of section 1-6.203-1 may be authorized by

the agency head in accordance with section 1-1.009 of this chapter, the Buy American Act, and Executive Order 10582.

**1-6.203-4 Small business.**

Nothing in section 1-6.203-1 shall affect the authority or responsibility of an executive agency to place a fair proportion of its total contracts with small business concerns.

**1-6.204 Invitation provision.**

Invitations for bids and requests for proposals for affected construction work shall include the following provision:

**INFORMATION REGARDING BUY AMERICAN ACT**

(a) The Buy American Act (41 U.S.C. 10a-10d) generally requires that only domestic construction material be used in the performance of this contract. (See the clause entitled "Buy American" in Standard Form 23A, General Provisions, Construction Contracts.) This requirement does not apply to the following construction material or components: [List the excepted construction material or components]

(b) (1) Furthermore, bids or proposals offering use of additional nondomestic construction material may be acceptable for award if the Government determines that use of comparable domestic construction material is impracticable or would unreasonably increase the cost or that domestic construction material (in sufficient and reasonably available commercial quantities and of a satisfactory quality) is unavailable. Reliable evidence shall be furnished justifying such use of additional nondomestic construction material.

(2) Where it is alleged that use of domestic construction material would unreasonably increase the cost:

(i) Data shall be included, based on a reasonable canvass of suppliers, demonstrating that the cost of each such domestic construction material would exceed by more than 6 percent the cost of comparable nondomestic construction material. (All costs of delivery to the construction site shall be included, as well as any applicable duty.)

(ii) For evaluation purposes, 6 percent of the cost of all additional nondomestic construction material, which qualifies under paragraph (1) above, will be added to the bid or proposal.

**SUBPART 1-6. 2      BUY AMERICAN ACT—  
CONSTRUCTION CONTRACTS**

1-6. 206

(3) When offering additional nondomestic construction material, bids or proposals may also offer, at stated prices, any available comparable domestic construction material, so as to avoid the possibility that failure of a nondomestic construction material to be acceptable, under (1) above, will cause rejection of the entire bid.

**1-6.205 Contract clause.**

Contracts for affected construction work shall include the following clause:

**BUY AMERICAN**

(a) Agreement. In accordance with the Buy American Act (41 U.S.C. 10a-10d) and Executive Order 10582, December 17, 1954 (3 CFR Supp.), the Contractor agrees that only domestic construction material will be used (by the Contractor, subcontractors, materialmen, and suppliers) in the performance of this contract, except for nondomestic material listed in the contract.

(b) Domestic construction material. "Construction material" means any article, material, or supply brought to the construction site for incorporation in the building or work. An unmanufactured construction material is a "domestic construction material" if it has been mined or produced in the United States. A manufactured construction material is a "domestic construction material" if it has been manufactured in the United States and if the cost of its components which have been mined, produced, or manu-

factured in the United States exceeds 50 percent of the cost of all its components. "Component" means any article, material, or supply directly incorporated in a construction material.

(c) Domestic component. A component shall be considered to have been "mined, produced, or manufactured in the United States" (regardless of its source in fact) if the article, material, or supply in which it is incorporated was manufactured in the United States and the component is of a class or kind determined by the Government to be not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

**1-6.206 Violations.**

If the head of the agency concerned finds there has been a failure to comply with the Buy American provisions of the contract, he shall make public his findings and no other contract for the construction, alteration, or repair of any public building or public work in the United States or elsewhere shall be awarded, as provided in the Buy American Act, to the contractor, subcontractors, materialmen, or suppliers with which the contractor is associated or affiliated, for a period of 3 years after such finding is made public. (For debarment procedures, see Subpart 1-1.6.)

(END OF PART)

CONTENTS OF PART 1-7 CONTRACT CLAUSES

**PART 1-7—CONTRACT CLAUSES**

Sec.  
 1-7.000 Scope of part.  
**Subpart 1-7.1—Fixed-Price Supply Contracts**  
 1-7.100 Scope of subpart.  
 1-7.101 Clauses.  
 1-7.101-1 Definitions.  
 1-7.101-2 Changes.  
 1-7.101-3 Extras.  
 1-7.101-4 Variation in quantity.  
 1-7.101-5 Inspection.  
 1-7.101-6 Responsibility for supplies.  
 1-7.101-7 Payments.  
 1-7.101-8 Assignment of claims.  
 1-7.101-9 Additional bond security.  
 1-7.101-10 Examination of records.  
 1-7.101-11 Default.  
 1-7.101-12 Disputes.  
 1-7.101-13 Notice and assistance regarding patent infringement.  
 1-7.101-14 Buy American Act.  
 1-7.101-15 Convict labor.  
 1-7.101-16 Eight-hour law of 1912—over-time compensation.  
 1-7.101-17 Walsh-Healey Public Contracts Act.

Sec.  
 1-7.101-18 Nondiscrimination in employment.  
 1-7.101-19 Officials not to benefit.  
 1-7.101-20 Covenant against contingent fees.  
 1-7.101-21 Utilization of small business concerns.  
 1-7.101-22 Federal, State, and local taxes.  
 1-7.101-23 Liquidated damages.

Subpart 1-7.2—[Reserved]  
 Subpart 1-7.3—[Reserved]  
 Subpart 1-7.4—[Reserved]  
 Subpart 1-7.5—[Reserved]

**Subpart 1-7.6—Fixed-Price Construction Contracts**

1-7.600 Scope of subpart.  
 1-7.601 Required clauses.  
 1-7.601-1 Clauses in standard construction contract forms.  
 1-7.602 Additional standardized clauses.  
 1-7.602-1 Price adjustment for suspension, delay, or interruption of the work.

## SUBPART 1-7.1 FIXED-PRICE SUPPLY CONTRACTS

1-7.101-23

**1-7.101-16 Eight-hour law of 1912—  
overtime compensation.**

Insert the clause set forth in section 1-12.303 under the conditions contained in section 1-12.302.

**1-7.101-17 Walsh-Healey Public Contracts Act.**

Insert the clause set forth in section 1-12.604 under the conditions contained in section 1-12.602.

**1-7.101-18 Nondiscrimination in employment.****NONDISCRIMINATION IN EMPLOYMENT**

(a) In connection with the performance of work under this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of the nondiscrimination clause.

(b) The Contractor further agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

**1-7.101-19 Officials not to benefit.****OFFICIALS NOT TO BENEFIT**

No member of or delegate to Congress, or resident commissioner, shall be admitted to

any share or part of this contract, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

**1-7.101-20 Covenant against contingent fees.**

Insert the clause set forth in section 1-1.503 under the conditions contained in section 1-1.501.

**1-7.101-21 Utilization of small business concerns.****UTILIZATION OF SMALL BUSINESS CONCERNS**

(a) It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

(b) The Contractor agrees to accomplish the maximum amount of subcontracting to small business concerns that the Contractor finds to be consistent with the efficient performance of this contract.

**1-7.101-22 Federal, State, and local taxes.**

Insert the clause set forth in section 1-11.401-1 under the conditions contained therein.

**1-7.101-23 Liquidated damages.**

Insert the provision set forth in section 1-1.315-3 under the conditions and in the manner prescribed in section 1-1.315.

(NEXT PAGE IS 707)



- ↳ Subpart 1-7.2—[Reserved]
- Subpart 1-7.3—[Reserved]
- Subpart 1-7.4—[Reserved]
- ↳ Subpart 1-7.5—[Reserved]

(NEXT PAGE IS 709)

**SUBPART 1-7.6      FIXED-PRICE CONSTRUCTION  
CONTRACTS**

1-7.602-1(b)

**Subpart 1-7.6—Fixed-Price  
Construction Contracts**

**1-7.600 Scope of subpart.**

This subpart sets forth contract clauses for use in fixed-price construction contracts.

**1-7.601 Required clauses.**

**1-7.601-1 Clauses in standard construction contract forms.**

Subpart 1-16.4 prescribes standard forms for construction contracts which contain clauses required for use in accordance with said subpart.

**1-7.602 Additional standardized clauses.**

**1-7.602-1 Price adjustment for suspension, delay, or interruption of the work.**

The following clause shall be inserted in fixed-price construction contracts whenever it is desired to provide for suspension of the work for the convenience of the Government and/or to provide for administrative relief for unreasonable periods of delay caused by the contracting officer in the administration of the contract:

**PRICE ADJUSTMENT FOR SUSPENSION, DELAY,  
OR INTERRUPTION OF THE WORK**

(a) The Contracting Officer may order the

Contractor in writing to suspend all or any part of the work for such period of time as he may determine to be appropriate for the convenience of the Government.

(b) If, without the fault or negligence of the Contractor, the performance of all or any part of the work is, for an unreasonable period of time, suspended, delayed, or interrupted by an act of the Contracting Officer in the administration of the contract, or by his failure to act within the time specified in the contract (or if no time is specified, within a reasonable time), an adjustment shall be made by the Contracting Officer for any increase in the cost of performance of the contract (excluding profit) necessarily caused by the unreasonable period of such suspension, delay, or interruption, and the contract shall be modified in writing accordingly. No adjustment shall be made to the extent that performance by the Contractor would have been prevented by other causes even if the work had not been so suspended, delayed, or interrupted. No claim under this clause shall be allowed (1) for any costs incurred more than twenty days before the Contractor shall have notified the Contracting Officer in writing of the act or failure to act involved (but this requirement shall not apply where a suspension order has issued), and (2) unless the claim, in an amount stated, is asserted in writing as soon as practicable after the termination of such suspension, delay, or interruption but not later than the date of final settlement of the contract. Any dispute concerning a question of fact arising under this clause shall be subject to the Disputes clause.

(END OF PART)

## SUBPART 1-16.2 FORMS FOR NEGOTIATED SUPPLY CONTRACTS

1-16, 201-5

### Subpart 1-16.2—Forms for Negotiated Supply Contracts

#### 1-16.200 Scope of subpart.

This subpart prescribes forms for use in procuring supplies or services (excluding construction) by negotiation. Illustrations of these forms are contained in Subpart 1-16.9.

#### 1-16.201 Request for Quotations (Standard Form 18).

##### 1-16.201-1 Form prescribed.

Standard Form 18 (for illustration of form, see section 1-16.901-18) is prescribed to obtain price, delivery, and related information from suppliers in accordance with this section. Standard Form 36 (Continuation Sheet) may be used with the Request for Quotations form when additional space is needed.

##### 1-16.201-2 Small procurements (\$2,500 or less).

When written quotations are solicited for small purchases (\$2,500 or less) pursuant to section 1-3.603-1(d), Standard Form 18 shall be used, except in special cases where, for cogent reasons, agency needs require that firm offers be obtained.

##### 1-16.201-3 Procurement in excess of \$2,500.

Standard Form 18 is authorized for use in negotiated procurements in excess of \$2,500 where a written, informational quotation is desired. The form is particularly usable where it appears reasonably certain that the procurement will be consummated by (a) a fixed-price contract involving extensive negotiation, or (b) a cost reimbursement type contract. The form may also be used, where appropriate, to obtain price information for planning purposes in either negotiated or advertised procurements, pursuant to section 1-1.314.

##### 1-16.201-4 Legal effect of quotation.

(a) A quotation submitted on Standard Form 18 is informational in charac-

ter and is not to be construed as a legal offer which can be accepted by the Government to form a binding contract. Accordingly, issuance by the Government of a purchase order (or other document) pursuant to a supplier's quotation on Standard Form 18 does not constitute acceptance.

(b) Such purchase order is legally an offer by the Government to the supplier to buy certain goods or services upon specified terms and conditions. A contract comes into being when the supplier accepts the offer. Where appropriate, the supplier should be requested to indicate acceptance of the purchase order by notification to the Government, preferably in writing. In other circumstances, the supplier may indicate acceptance by furnishing the supplies or services ordered or by proceeding with the work to the point where substantial performance has occurred in lieu of notification to the Government.

(c) Under the procedure of obtaining a quotation and issuing a purchase order, the Government may, at any time before acceptance occurs, withdraw, amend, or cancel its offer, and thereby minimize disputes and administrative costs. In such cases, a written notice should be given the supplier. Since substantial performance by the supplier may constitute an acceptance of the purchase order, a notice of its cancellation should not be issued on the assumption that the Government is not liable. Nonacceptance in fact should be verified.

##### 1-16.201-5 Reproduction and availability of forms.

Standard Form 18 is available from GSA stores depots. Special printing of the form to omit the vertical lines (for listing of supplies and services, unit, etc.) is authorized. Also, the use of reproducible masters, and make-up in carbon-interleaved pads or sets, is authorized.

(NEXT PAGE IS 1605)

GENERAL SERVICES ADMINISTRATION  
WASHINGTON 25, D. C.

ADM P 2800.1 CHGE 32  
January 29, 1963

GSA ORDER

SUBJECT: General Services Administration Procurement Regulations

1. PURPOSE. This order transmits an interim revision to Chapter 5, GSPR.
2. CANCELLATIONS.
  - a. Memorandum dated January 12, 1955, from the Administrator to all Commissioners and Regional Directors, GSA, subject: Buy American Act - Executive Order 10582 of December 17, 1954 (Federal Register of Tuesday, December 21, 1954), is hereby canceled.
  - b. Memorandums dated October 7 and December 30, 1955, from the Acting Administrator to Commissioners, EPS, FSS, PBS, and All Regional Directors, GSA, subject: Buy American Act - Executive Order 10582, are hereby canceled.
  - c. GSA Order ADM 2851.1, dated April 10, 1959, is canceled.
3. EXPLANATION OF CHANGE. Subpart 5-6.50 is added to implement the Buy American Act and Executive Order No. 10582 with respect to supply and service contracts. Construction contracts are subject to the provisions of FPR 1-6.2, Buy American Act - Construction Contracts.
4. INSTRUCTIONS. Remove and insert the following pages of Chapter 5, GSPR, as indicated below:

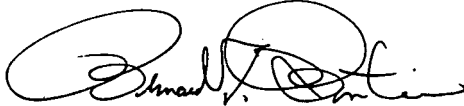
ADM P 2800.1 CHGE 32  
January 29, 1963

Remove Pages

Table of Parts  
None  
None

Insert Pages

Table of Parts  
Contents of Part 5-6(i)  
601 - 607



BERNARD L. BOUTIN  
Administrator

## TABLE OF PARTS

## GENERAL SERVICES ADMINISTRATION PROCUREMENT REGULATIONS

## CHAPTER 5 GENERAL SERVICES ADMINISTRATION

## Part

- 5-1 General.
- 5-2 Procurement by formal advertising.
- 5-3 Procurement by negotiation.
- 5-5 Special and directed sources of supply.
- 5-6 Foreign purchases.
- 5-7 Contract clauses.
- 5-10 Bonds and insurance.
- 5-12 Labor.
- 5-16 Procurement forms.
- 5-51 Contract financing.
- 5-52 Defense Materials Service contracts.
- 5-53 Contract administration.
- 5-54 Patents and copyrights.
- 5-60 Contract appeals.

(Next page is iii)

GSPR  
(ADM P 2800.1 CHGE 32, 1-29-63)

i

## CONTENTS OF PART 5-6 FOREIGN PURCHASES

SUBPART 5-6.50 BUY AMERICAN ACT - SUPPLY  
AND SERVICE CONTRACTS

## Sec.

5-6.5000	Scope of subpart.
5-6.5001	Definitions.
5-6.5002	Statutory requirements.
5-6.5003	Exceptions.
5-6.5003-1	Use outside the United States.
5-6.5003-2	Nonavailability in the United States.
5-6.5003-3	Unreasonable cost or inconsistency with the public interest.
5-6.5003-4	Panamanian material used in Canal Zone.
5-6.5004	Procedures.
5-6.5004-1	Applicability.
5-6.5004-2	Certificate.
5-6.5004-3	Evaluation of bids and proposals.
5-6.5004-4	Contract clause.

SUBPART 5-6.50 BUY AMERICAN ACT - SUPPLY  
AND SERVICE CONTRACTS

5-6.5001(d)

## § 5-6.5000 Scope of subpart.

This subpart implements the Buy American Act (41 U.S.C. 10a-d) and the provisions of Executive Order 10582 of December 17, 1954, as amended by Executive Order 11051 of September 27, 1962, with respect to supply and service contracts. (For construction contracts see FPR 1-6.2.)

## § 5-6.5001 Definitions.

As used in this subpart, the following terms have the meanings set forth below:

(a) "End products" means articles, materials, and supplies which are to be acquired for public use. As to a given contract, the end products are the items to be delivered to the Government, as specified in the contract, including articles, materials, and supplies to be delivered to the Government for public use, as may be specified in service contracts.

(b) "Components" means those articles, materials, and supplies which are directly incorporated in the end products.

(c) "United States" means the States, the District of Columbia, Puerto Rico, American Samoa, the Canal Zone, the Virgin Islands, and any other place subject to the jurisdiction of the United States.

(d) "Domestic source end product" means an unmanufactured end product which has been mined or produced in the United States, or an end product manufactured in the United States if the cost of its components which are mined, produced, or manufactured in the United States exceeds 50 percent of the cost of all its components. A component shall be considered to have been mined, produced, or manufactured in the United States (regardless of its source in fact) if the end product in which it is incorporated is manufactured in the United States and the component is of a class or kind (1) determined by the Government to be not mined, produced or manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (2) as to which the Administrator has determined that it would be inconsistent with the public interest to apply the restrictions of the Buy American Act.

GSPR

(ADM P 2800.1 CHGE 32, 1-29-63)

601



## PART 5-6 FOREIGN PURCHASES

## 5-6.5001(e)

(e) "Foreign end product" means an end product other than a domestic source end product.

(f) "Domestic bid" means a bid or offered price for a domestic source end product, including transportation to destination.

(g) "Foreign bid" means a bid or offered price for a foreign end product including transportation to destination and duty (whether or not a duty-free entry certificate may be issued).

## § 5-6.5002 Statutory requirements.

Except as provided in § 5-6.5003, the Buy American Act requires that in the procurement of supplies and services only domestic source end products shall be acquired for public use. In determining whether an end product is a domestic source end product, only the end product and its components shall be considered.

## § 5-6.5003 Exceptions.

## § 5-6.5003-1 Use outside the United States.

The restrictions of the Buy American Act do not apply to articles, materials, or supplies for use outside the United States.

## § 5-6.5003-2 Nonavailability in the United States.

(a) The Buy American Act does not apply to articles, materials, or supplies of a class or kind which the Government has determined are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

(b) Requests for determinations concerning nonavailability of domestic supplies shall be submitted on a case-by-case basis, with an appropriate statement of facts, and a proposed determination, to the regional or Central Office official having authority to make such determinations. The statement of facts shall include the following information:

GSPR

SUBPART 5-6.50 BUY AMERICAN ACT - SUPPLY  
AND SERVICE CONTRACTS

5-6.5003-2(c)

- (1) Description of the item(s), including unit and quantity.
  - (2) Estimated cost, including duty, if any (show the amount of duty separately).
  - (3) Transportation costs for delivery to destination, if item is to be procured f. o. b. origin.
  - (4) Country of origin.
  - (5) Name and address of prospective contractor(s), if available.
  - (6) Brief statement as to the necessity for the procurement.
  - (7) Statement of effort made to procure a similar item of domestic origin or statement that there is no domestic item which can be used as a reasonable substitute.
- (c) Ordinarily, the findings and determination of nonavailability shall be prepared in the format shown below:

GENERAL SERVICES ADMINISTRATION

Reference No. \_\_\_\_\_

FINDINGS AND DETERMINATION OF NONAVAILABILITY UNDER THE  
BUY AMERICAN ACT REGARDING PURCHASE OF (insert description)

Pursuant to the provisions of the Buy American Act (41 U.S.C. 10a-d), and Executive Order 10582, December 17, 1954 (3 CFR Supp.), and by virtue of delegated authority, the following findings of fact and determination are hereby made:

1. Findings (set forth a statement of facts).
2. In view of the foregoing, it is hereby determined that for the purposes of the Buy American Act (insert item description) is not mined,

## PART 5-6 FOREIGN PURCHASES

## 5-6.5003-2(c)

produced, or manufactured at the present time in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

Date \_\_\_\_\_ (Signed) \_\_\_\_\_

(d) When it has been determined that the Buy American Act is not applicable to the purchase of the end product, or to the components from which it is manufactured, the original of the determination shall be made a part of the contract file. In addition, a statement substantially as follows shall be inserted in the applicable contract documents:

## DETERMINATION OF NONAVAILABILITY

For the purpose of the Buy American Act, the (insert title of person making determination), General Services Administration, has determined that (insert item description) is not mined, produced, or manufactured at the present time in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.

## § 5-6.5003-3 Unreasonable cost or inconsistency with the public interest.

The restrictions of the Buy American Act do not apply when it is determined by the Administrator that the cost of a domestic source end product would be unreasonable or that its acquisition would be inconsistent with the public interest. Such determination shall be made in accordance with § 5-6.5004-3.

## § 5-6.5003-4 Panamanian material used in Canal Zone.

Articles, materials, and supplies that are mined, produced or manufactured in the Republic of Panama, when purchased for use in the Canal Zone, are exempted from the provisions of the Buy American Act (under item 3 of the Memorandum of Understandings Reached ancillary to the Treaty of Mutual Understanding and Cooperation between the United States of America and the Republic of Panama, signed January 25, 1955).

604

GSPR  
(ADM P 2800.1 CHGE 32, 1-29-63)

**SUBPART 5-6.50 BUY AMERICAN ACT - SUPPLY  
AND SERVICE CONTRACTS**

5-6.5004-3(b)

**§ 5-6.5004 Procedures.**

**§ 5-6.5004-1 Applicability.**

The procedures in this § 5-6.5004 apply to all contracts involving the procurement of end products, except contracts exclusively for end products for use outside the United States.

**§ 5-6.5004-2 Certificate.**

Invitations for bids and requests for proposals shall require that each bid or proposal include a certificate substantially as follows:

**BUY AMERICAN CERTIFICATE**

The bidder or offeror hereby certifies that each end product, except the end products excluded below, is a domestic source end product (as defined in the contract clause entitled "Buy American Act"); and that components of unknown origin have been considered to have been mined, produced, or manufactured outside the United States:

**EXCLUDED END PRODUCTS** (show country of origin and name of supplier for each excluded end product): \_\_\_\_\_

**§ 5-6.5004-3 Evaluation of bids and proposals.**

(a) In accordance with the Buy American Act, the Administrator has determined that where the following procedures result in the acquisition of foreign products, the acquisition of domestic source end products would be (1) unreasonable in cost, or (2) inconsistent with the public interest.

(b) Bids and proposals shall be evaluated so as to give preference to domestic bids. For the purpose of such evaluation, a factor of 6 percent of each foreign bid shall be added to the foreign bid, except that where the firm submitting the low acceptable domestic bid is a small business concern (see § 1-1.703) or a labor surplus area concern (see § 1-1.801-1),

## PART 5-6 FOREIGN PURCHASES

## 5-6. 5004-3(b)

or both, then a factor of 12 percent (in lieu of the 6 percent factor) of each such foreign bid shall be added to that foreign bid. After such adjustment, award shall be made to the low acceptable bidder except for those cases forwarded to the Central Office pursuant to (c) below. When more than one line item is offered in response to an invitation for bids or request for proposals, the appropriate factor shall be applied on an item-by-item basis, except that the factor may be applied to any group of items as to which the invitation for bids or request for proposals specifically provides that award may be made on a particular group of items.

(c) Proposed awards shall be submitted through normal channels to the Administrator for decision where rejection of an acceptable low foreign bid is considered necessary to protect the national interest, or essential national security interests, or where rejection of any bid or offered price for other reasons is considered necessary.

Such submissions shall be accompanied by a statement of facts containing the following information:

- (1) Description of the item(s), including unit and quantity.
- (2) Estimated cost.
- (3) Statement as to whether duty is included in estimated cost; and, if duty is not included, statement of reasons for exclusion.
- (4) Transportation costs for delivery to destination if item is to be procured f. o. b. origin.
- (5) Country of origin.
- (6) Name and address of proposed contractor(s), if available.
- (7) Brief statement as to necessity for procurement.
- (8) Reasons for recommending rejection of an acceptable low foreign bid in order to protect essential national security interests or rejection of any bid or proposal for other reasons of national interest.

SUBPART 5-6.50 BUY AMERICAN ACT - SUPPLY  
AND SERVICE CONTRACTS

5-6.5004-4

Prior to final action under this paragraph (c), the Administrator (or his designee) will (i) obtain advice from the Director, Office of Emergency Planning, with respect to rejection of bids or offered prices on the grounds that such rejection is necessary to protect essential national security interests, and (ii) apprise the President of the facts in the matter with respect to rejection of bids or offered prices for reasons of the national interest not described or referred to in Executive Order 10582, as amended.

§ 5-6.5004-4 Contract clause.

The clause set forth in § 1-7.101-14 shall be inserted in all invitations for bids (or requests for proposals) and resulting contracts for supplies and, when applicable, in contracts for services; except that it should not be inserted in contracts exclusively for articles, materials, and supplies for use outside the United States.

(End of Part)

GSPR  
(ADM P 2800.1 CHGE 32, 1-29-63)

607

ASSISTANT SECRETARY OF DEFENSE,  
INSTALLATIONS AND LOGISTICS,  
Washington, D.C., May 23, 1964.

Hon. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
Congress of the United States,  
Washington, D.C.

DEAR MR. CHAIRMAN: This replies to your letter of May 13, 1964, to Secretary McNamara, in which you request that we furnish for the record answers to certain questions raised by Senator Javits regarding the impact of the administration of the Buy American Act and the cost of Federal procurement. Senator Javits raised these questions in connection with hearings held by the Subcommittee on Defense Procurement on April 16 and 21. Our answers are set forth in the numbered paragraphs below, with the number of each paragraph corresponding to the number of Senator Javits' question.

1. The Department of Defense is applying a 50-percent price differential under Buy American Act. This differential is applied to foreign bids exclusive of any U.S. import duties. In the relatively few cases where, because of unusually high import duties, application (pursuant to Executive Order 10582), of the 6- or 12-percent price differential, each of which is computed on a duty inclusive basis, would result in a greater preference for domestic bids than does the 50-percent differential, we continue to apply the 6- or 12-percent differential. The 50-percent differential has been applied since April 10, 1964. (Our previous procedure is spelled out on pp. 356 and 357 of the subcommittee's hearings of March 28, 1963.) The 50-percent differential is an interim measure designed to alleviate the impact of Department of Defense expenditures on the Nation's balance of international payments and we do not expect to use it beyond the time when the balance-of-payments deficit is corrected. In this sense, but only in this sense, it is an exception rather than the rule.

2. It is impossible to state exactly what percentage of our annual procurement "is affected by" the Buy American Act. We have no way of knowing what foreign bids would be received if the act did not exist. Nor can we tell the extent, if any, to which American manufacturers would substitute foreign components and subassemblies for their domestic counterparts if the act did not exist. In a sense, all our procurement of articles, materials, and supplies for use in the United States is "affected" by the act, since it is all subject to the act. This represents roughly 70 percent of our total procurement; the percentage has not differed appreciably in the past 3 years. Our procurement of foreign supplies for use in the United States, however, has differed in the past 3 years. For fiscal year 1961, procurement of foreign supplies amounted to about \$209 million; for fiscal year 1962, \$237 million; for fiscal year 1963, \$53 million. The last figure does not include petroleum procurements. For fiscal years 1961 and 1962, procurements of foreign petroleum for use in the United States came to about \$80 and \$85 million, respectively.

3. It is impossible to measure precisely the extent to which our "Buy American" policy has reduced the balance-of-payments deficit during the past 3 fiscal years. We simply do not know what foreign bids might have been received if our "Buy American" policy had been different from what it was. For fiscal year 1963, the Defense Department rejected low foreign bids amounting to \$8.3 million as a result of the price differential policy then in effect. The figure for the first half of fiscal year 1964 is \$966,000. For earlier years, we have no information available.

4. The additional budgetary cost of our present "Buy American" policy, insofar as it can be identified, is about 30 percent of the low foreign bids. Undeniably, there is an element of inconsistency between this additional budgetary cost and maximum budgetary economy in defense procurement. The existence of this inconsistency indicates the seriousness of the balance-of-payments problem. The additional budgetary cost reflects our balancing of two important but conflicting objectives: (1) economy in procurement and (2) reduction in foreign expenditures.

5. Except under our balance-of-payments procedure described in answer to question 1, there has been no major procurement in the past 5 years in which we have "bought American" notwithstanding that a foreign bid would be in line for award under Executive Order 10582 or "bought foreign" notwithstanding that a domestic bid would be in line for award.

6 and 7. Not addressed to the Defense Department.

8. The Department of Defense would have no objection to legislation giving the President discretionary authority to make exceptions from the Buy American Act and similar legislation. We would point out, however, that the "public interest" exception now provided for in the Buy American Act might make the enactment of additional authority unnecessary so far as this act is concerned. As to the specific recommendation of the Commission on Foreign Economic Policy, we would defer to the Department of State.

9. The 50-percent differential presently being applied by the Department of Defense is spelled out in revision No. 5 to the Armed Services Procurement Regulation, dated May 11, 1964. Revised ASPR 6-104.5 will require incorporation in each contract subject to the Buy American Act of a contract clause which specifically alerts bidders to the fact that the Defense Department is applying a 50-percent price differential.

So that there may be no misunderstanding, it is noted that the foregoing applies only to procurement for use in the United States. The Buy American Act, and therefore Senator Javits' questions, do not apply to procurement for use outside the United States.

Sincerely,

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

---

DEPARTMENT OF STATE,  
*Washington, May 26, 1964.*

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

DEAR SENATOR DOUGLAS: Thank you for your letter of May 13 transmitting nine questions of Senator Javits concerning the effect of the Buy American Act on Federal procurement. Our responses to the eight questions which pertain to the Department of State follow:

1. Since the promulgation of Executive Order 10582 on December 17, 1954, the Department of State has applied the price differential specified therein. This is, of course, 6 percent, except that when the domestic firm submitting the low acceptable bid is a small business or a concern in a labor surplus area 12 percent is added to the foreign bid.

2. The Department of State's total domestic procurement subject to the Buy American Act is relatively small, and a substantial part of it is done by the General Services Administration on the Department's behalf. A further portion of the Department's contracting is for goods and services for which, for security and other reasons, foreign bids cannot be considered. In addition, some of the Department's procurement is in the form of small purchases for which the use of advertising and formal invitations to bid would be unwarrantably costly. Therefore, the Department's procurement subject to the Buy American Act does not normally attract foreign bidders, and, during the past 3 years, there has been no occasion to apply the differential.

3. As indicated above, the Department's domestic procurement activity during the past 3 years has not contributed to the balance-of-payments deficit.

The Department's oversea procurement is not subject to the provisions of the Buy American Act. However, the Department's policy on oversea procurement has recently been changed in a positive effort to reduce the balance-of-payments deficit. The Department has acceded to the recommendation of the Cabinet Committee on Balance of Payments, that all Federal agencies procuring for use abroad procure, in general, domestic materials, unless the delivered cost of the domestic materials is estimated to be 50 percent greater than the cost of like materials of foreign origin. This action, which increased the differential from the 30 percent previously applied by the Department, was taken on March 31, 1964.

4. The Department's domestic procurement operations have not increased its budgetary costs because no foreign bids at prices lower than domestic offers have been received.

5. The Department of State has not waived the application of the Buy American Act in any of its procurement.

6. Because of our balance-of-payments situation, the U.S. Government has had to tighten its procedures with respect to foreign procurement. There is no doubt, however, that the stricter the interpretation of the Buy American Act, the more difficult our position becomes in trade negotiations, including the current



Kennedy round discussions. The desirability of liberalizing Government procurement practices has already been raised in the nontariff barriers discussions preparatory to the formal Kennedy round.

8. The Department considers that the suggested amendment would present serious administrative problems. Many other countries do not use a system of open competitive bidding on Government procurement, thus making it difficult to determine whether domestic and foreign bidders are given substantially equal treatment. A country which considered that it was unfairly denied exemption from the provisions of the Buy American Act might well react by instituting restrictive measures which would be detrimental to our exports.

Also, the Department considers that the proposed amendment would conflict with the established policy of most-favored-nation treatment, which has long been embodied in U.S. law—i.e., the policy of nondiscriminatory treatment of the commerce of friendly foreign countries. Under the most-favored-nation principle contained in treaties and trade agreements entered into with most of the major trading nations of the world, the United States has received assurances of nondiscriminatory or fair and equitable treatment for U.S. commerce in the case of purchases by other governments in return for the obligations undertaken by the United States to accord such treatment to the commerce of these other nations.

9. The Department of State has not changed its differential under the Buy American Act since the application of Executive Order 10582 of December 17, 1954. The Federal procurement regulations are followed where applicable and the standard U.S. Government contract clauses are used.

We shall be happy to provide any further information on this subject which may be needed by the committee.

Sincerely yours,

FREDERICK G. DUTTON,  
*Assistant Secretary.*

DEPARTMENT OF STATE,  
AGENCY FOR INTERNATIONAL DEVELOPMENT,  
OFFICE OF THE ADMINISTRATOR,  
*Washington, D.C., June 4, 1964.*

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

DEAR MR. CHAIRMAN: Thank you for your letter of May 13, 1964, transmitting a series of questions raised by Senator Javits on the impact of the administration of the Buy American Act on the cost of Federal procurement. I am enclosing for the record the answers to such questions as they relate to this Agency.

If additional information is required, please let me know.

Sincerely yours,

DAVID E. BELL.

#### THE BUY AMERICAN ACT AND AID PROCUREMENT POLICY

Since the Buy American Act relates only to procurement for use in the United States, it is not applicable to the policies and procedures of the Agency for International Development in its financing of goods and services for underdeveloped countries. However, in response to a Presidential communication in late 1960 on the need for agencies of the Federal Government to take steps to reduce the drain of Government operations on the U.S. balance of payments, the Agency has applied measures to largely restrict AID-financed goods and services to U.S. source. The answers to the specific questions raised by Senator Javits are as follows:

1. The Agency for International Development is not subject to the Buy American Act by virtue of a Presidential waiver issued in Executive Order 10784, based upon the authority granted to him in section 633(a) of the Mutual Security Act of 1954, to waive the application of certain laws to functions authorized under the Act. The Agency has voluntarily purchased U.S. goods for its use in the United States.

2. The procurement affected by application of the Buy American Act referred to above would constitute about two-tenths of 1 percent of total AID financing

of commodities. Total procurement financed by AID for aid-receiving countries has averaged about \$1 billion per year during the past 4 years. Procurement by the Agency for its own use in Washington averages less than \$2 million per year.

3. As indicated above, AID's application of the Buy American Act would have no appreciable effect on the U.S. balance of payments. However, the application of restrictive procurement policies has had a marked effect. AID has for several years progressively tied an increased amount of its procurement for developing countries to American source. This policy has been adopted in order to assist in closing the U.S. balance-of-payments gap. The tabulation below reflects information for fiscal years 1960-63, and the first half of fiscal year 1964. These are commodity expenditure figures shown in millions of dollars. The percent column indicates the proportion of expenditures made for procurement in the United States.

Fiscal year	Total commodity expenditures	Expenditures in the United States	
		Value	Percentage
1960.....	\$1,010.2	\$408.5	41
1961.....	1,054.6	465.7	44
1962.....	809.4	511.9	63
1963.....	1,095.4	854.6	78
1964 (6 months).....	614.4	519.2	85

4. The increase in budgetary cost attributable to application of the Buy American Act by AID would be negligible. The cost to the assistance program of the source restrictions on procurement for use abroad are unknown, but may be considerable. Many items of American capital equipment financed by AID appear to cost as much as 30 percent more than competitive foreign equipment but since bids for the supply of foreign equipment are not entertained for AID-financed projects, we do not have a basis for calculating the budget impact. We believe, however, that most aid recipients request AID assistance for those projects where they believe American suppliers will be most competitive and seek financing from other donors or international financial institutions for projects where American costs are least competitive. To some extent a similar shift takes place in nonproject commodity financing.

5. The Agency procures all items of equipment required for its own use in Washington from U.S. source except for such items as foreign books and some office equipment which cannot be obtained from U.S. source.

6. This question is applicable to State only.

7. This question is not applicable to AID.

8. The Department of State is providing the reply to this question. We would add, however, that when the U.S. balance-of-payments situation permits, AID intends to consider liberalizing its procurement source policies in the context of its continuing effort to persuade other donors to unite their assistance.

9. Not applicable to AID.

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, May 18, 1964.

B-150417.

Hon. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee,  
Congress of the United States.

DEAR MR. CHAIRMAN: We have your letter of May 13, 1964, requesting us to furnish for the record answers to nine questions posed by Senator Javits.

The General Accounting Office procures practically no supplies except under Federal supply schedules and for this reason we have no occasion to apply "Buy American" price differentials. Of the nine questions asked, eight are not applicable to the General Accounting Office.

The remaining question (No. 8) is stated as follows:

"The Commission on Foreign Economic Policy, in its report to the President and the Congress in January 1954, recommended that the Buy-American Act and

legislative provisions of other acts containing the "Buy American" principle 'should be amended to give authority to the President to exempt from the provisions of such legislation the bidders of other nations that treat our bidders on an equal basis with their own nationals.' What would be your agency's position on such an amendment appropriately offered for the consideration of the Congress?"

We believe that the desirability of permitting exemption from the Buy-American Act to foreign bidders whose countries do not discriminate against U.S. bidders is essentially a policy question for determination by the Congress and the executive branch after consideration of various factors such as those mentioned in the other questions posed by Senator Javits. We therefore would have no recommendation to make on legislation proposed to accomplish this purpose.

You are aware, we presume, of the fact that the Buy-American Act is not now applied to Panamanian supplies purchased by the Defense Department for use in the Canal Zone, nor to certain Canadian supplies (secs. 6-103.5 and 6-103.6, Armed Services Procurement Regulation).

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

## APPENDIX 4

### MILITARY COMMISSARIES

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, D.C., April 16, 1964.*

Hon. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
Congress of the United States.*

DEAR MR. CHAIRMAN: In accordance with a recommendation of your committee in July 1963 and subsequent discussions with your staff, we have made a review of the criteria established by the Secretary of Defense for the authorization of military commissary stores in the continental United States.

Our review discloses that, although competitive food stores are located near most military commissary stores in the United States, commissary stores have continued in operation and increased in number despite the statutory requirement since 1953 that such stores be authorized only if reasonable prices are not otherwise readily available. The authorization of commissary stores has continued each year because the criteria established by the Department of Defense defeat the purpose of the law. Under these criteria, for example, the prices at all commercial food stores surveyed in the United States during recent years have been found to be unreasonable. In view of the strong competition among commercial grocery stores and their resulting low profit margins, it is apparent that the criteria are illogical. We estimate that under any realistic criteria more than half the commissary stores in the United States would be closed.

In addition, the Department of Defense has expended considerable manpower each year conducting surveys at all commissary stores in the United States for compliance with its criteria, even though it is obvious that such surveys will not in any way restrict commissary operations. The wasted effort connected with these surveys has cost the Government about \$100,000 annually, or about \$1 million since 1953.

Since commissary store sales prices exclude major operating expenses, we have estimated, as explained in the report, that the military commissary store system in the United States results in a loss to the Government of almost \$150 million a year. The justification advanced over the years by the military departments for maintaining a widespread commissary store system has been that the fringe benefit has become, as a practical matter, a part of the pay structure for military personnel and that, consequently, the curtailment of the fringe benefit would represent a reduction in remuneration and would adversely affect the morale of military personnel. While commissary store privileges are available to all military personnel, they obviously are not needed by the vast number of military personnel fed in messhalls, and such personnel would not be affected by limitations on commissary store operations. In any event, we believe that any inadequacy of pay and allowances to military personnel should be brought to the attention of the Congress as a matter to be decided on its merits, apart from the need for commissary stores.

In view of the ineffectiveness of the restriction contained in each annual appropriation law enacted since August 1953 in deterring the continued operation and growth of military commissary stores and in view of the fact that competitive commercial food stores are generally located reasonably close to most military installations in the continental United States, we are suggesting that your committee consider recommending to the Congress the enactment of legislation to establish precise conditions under which the operation of military commissary stores may be authorized. Also, to the extent that the operation of commissary stores may be authorized, the Congress may wish to consider providing for selling prices to be set at the level of competitive commercial retail prices in order to avoid inequities between personnel at installations having commissary stores and personnel at installations not having commissary stores.

Pending action by the Congress to clarify its position with regard to commissary stores, we believe that it would be desirable to omit from future appropriation acts for the Department of Defense the requirement for the annual certifica-

tion of commissary stores by the Secretary of Defense. This will avoid the expenditure of about \$100,000 a year for surveys of the type now conducted for the purpose of authorizing commissary stores.

At your request, the findings in this report have not been submitted to officials of the Department of Defense for comment. Consequently, we have not obtained any written explanations that they may be able to offer.<sup>1</sup>

We believe that the contents of this report will be of interest to other committees and Members of the Congress. Therefore, as previously agreed with you, we are making our customary distribution of the report.

We trust that the report provides you with the information you require. If we can be of further assistance, please let us know.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

**FAILURE TO CURTAIL OPERATION AT GOVERNMENT EXPENSE OF MILITARY COMMISSARY STORES IN CONTINENTAL UNITED STATES WHERE ADEQUATE COMMERCIAL FACILITIES ARE AVAILABLE**

**INTRODUCTION**

The General Accounting Office has made a review of the criteria established by the Secretary of Defense for the authorization of military commissary stores located in the continental United States. This authorization is made pursuant to law requiring the Secretary of Defense to certify yearly as to the need for each such commissary store.

Our review originated as a result of a recommendation by the Subcommittee on Defense Procurement to the Joint Economic Committee of Congress in July 1963 that we undertake an investigation of military commissary stores. Our review was carried out at the Office of the Secretary of Defense, at the headquarters of the military departments, and at the eight commissary stores in the Washington, D.C., metropolitan area. The review was made under the authority of the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

At the request of the chairman of the Joint Economic Committee, the findings in this report were not submitted to officials of the Department of Defense for comment. Consequently, we have not obtained any written explanations that they may be able to offer.

**BACKGROUND**

The Department of Defense operates commissary stores mostly at or adjacent to military installations throughout the world for the purpose of selling groceries, meats, produce, and household supplies to authorized personnel. At June 30, 1963, 269 of these stores were operated in the continental United States, 15 in Alaska and Hawaii, and 193 in other oversea locations—a total of 477 stores. Sales of the commissary stores for the fiscal year 1963 amounted to \$972 million, of which \$730 million represented sales of stores in the United States. Authorized customers of the commissary stores are predominantly the Regular, Active-Duty Reserve, and retired personnel of the uniformed services. A great number of military personnel are fed in mess facilities on the base and, consequently, do not need to patronize commissary stores. Most personnel who patronize commissaries live in outside communities rather than on the installations at which the stores are located.

According to an Army document on chronological events affecting commissary stores, sales of subsistence supplies to Army military personnel originated with the sutler system. Sutters were peddlers who followed an Army and sold food and other goods to the troops. After 1825, however, the Army was authorized to sell subsistence supplies to officers at certain frontier posts at cost. The sutler system was abolished in 1866 by a law that directed the Army to sell subsistence supplies to officers and enlisted men at cost. A law enacted in 1867 permitted traders at military posts, but the traders were not allowed to sell subsistence supplies to enlisted men. Under the same law, former sutlers were authorized to operate at frontier posts not in the vicinity of a town. For more than 50 years, until 1923, the selling price of subsistence supplies was only the invoice cost of the merchandise. In 1923 through 1927, certain other items of cost were added to the invoice cost to arrive at the selling price. After 1927 and until January 1, 1952, selling price was again only the invoice cost of the merchandise.

<sup>1</sup> See p. 170, *supra*.

Since the Air Force was separated from the Army and set up as a separate organization in 1947, it has had the same right as the Army to sell subsistence supplies. Prior to 1952, the law did not specify the amount the Navy should charge its personnel for commissary purchases. However, the Navy has sold subsistence supplies for slightly more than the invoice cost of the merchandise.

Effective January 1, 1952, the Department of Defense Appropriation Act, 1952 provided for collecting a surcharge from commissary customers. This provision is repeated in each subsequent annual appropriation act for the Department. Since January 1, 1952, the basic law in conjunction with the annual appropriation act has required that customers of commissary stores pay (1) the bare cost of merchandise (purchase price including transportation) and (2) a surcharge, which has been about 3 percent for many years, to cover the cost of commissary operating equipment, supplies, utilities, and merchandise losses and spoilage. The remaining costs that are not collected from customers are borne by appropriated funds of the military department. These costs are principally (1) pay, allowances, etc., for military and civilian employees engaged in operating the stores, (2) facilities including store rental, and (3) procurement, inspection, receiving, warehousing, disbursing, accounting, and other administrative functions performed for the stores.

The operation of commissary stores requires participation by numerous organizations within the Department of Defense, and the cost of these organizations attributable to services performed for the commissary stores is generally not determinable. For example, procurement is handled by the Defense Subsistence Supply Center, a component of the Defense Supply Agency, and by purchasing organizations at the installations; and inspection, receiving, warehousing, and issuing are handled by the Defense Subsistence Supply Center and by the appropriate organizations at the installations. The accounting systems of the military departments do not provide for the accumulation of the costs of these various organizations that are chargeable to commissary store operations. Consequently, it is not practical to determine the cost of commissary store operations. However, as commissary store operations in the United States are similar to those of a large chain food store, it appears that the costs of these commissary stores should be at least comparable to the costs of highly competitive food stores, exclusive of such costs as advertising and sales promotion that are not incurred by commissary stores.

On the basis of the foregoing, the published experience of chain food stores in the United States in recent years, and the loss of potential tax revenue to the Government through its operation of commissary stores, we estimate that the total cost to the Government of operating the commissary stores in the United States in the fiscal year 1963 exceeded \$170 million. According to the military departments, there were 269 commissary stores in the United States having some 3,000 military personnel and 8,100 civilian employees and a sales volume of \$730 million. The sales amounting to \$730 million consisted of \$709 million for the bare cost of merchandise and a surcharge of \$21 million. Consequently, only \$21 million of the \$170 million cost to the Government was recovered in the surcharge made to commissary store customers. Thus, we have estimated that the unrecovered cost to the Government of operating these commissary stores totaled \$149 million for the fiscal year 1963, including \$65 million for pay and allowances of military and civilian employees engaged in operating the stores.

Prior to August 1953, specific commissary stores were authorized by the military departments as an administrative matter. Since that date, however, the Secretary of Defense has been required by law to authorize only those commissary stores in the United States for which he certifies that items normally sold in commissary stores are not otherwise available to employees of the Department of Defense at a reasonable distance and a reasonable price in satisfactory quality and quantity. The Secretary of Defense has established criteria for determining whether or not a store should be authorized. A certificate based on these criteria is issued by the Secretary of Defense to the military departments to authorize the operation of specified commissary stores for each calendar year.

The Assistant Secretary of Defense (Manpower), acting on behalf of the Secretary of Defense, is responsible for prescribing the criteria for the authorization of commissary stores and for the certification of those commissary stores that satisfy the criteria.

A list of the principal officials of the Department of Defense with responsibility for the activities discussed in this report is contained in appendix I.

Selected comparative statistics for the commissary stores of each of the military departments are set forth in appendix II.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

*Unrealistic criteria used to justify authorization of commissary stores in the United States*

Although competitive food stores are located near most military commissary stores in the United States, commissary stores have continued in operation and increased in number despite the statutory requirement since 1953 that such stores be authorized only if reasonable prices are not otherwise readily available. The authorization of commissary stores has continued each year because the criteria established by the Department of Defense defeat the purpose of the law. Under these criteria, for example, the prices at all commercial food stores surveyed in the United States during recent years have been found to be unreasonable. In view of the strong competition among commercial grocery stores and their resulting low profit margins, it is apparent that the criteria are illogical. We estimate that under any realistic criteria more than half the commissary stores in the United States would be closed.

In addition, the Department of Defense has expended considerable manpower each year conducting surveys at all commissary stores in the United States for compliance with its criteria, even though it is obvious that such surveys will not restrict commissary operations. The wasted effort connected with these surveys has cost the Government about \$100,000 annually, or about \$1 million since 1953.

The events leading up to the statutory ban against operating commissary stores near commercial stores that have reasonable prices and the details of our findings follow :

*Criteria developed in 1949 at request of Congress to eliminate commissary stores where commercial prices are reasonable proved ineffective*

In April 1949 a subcommittee of the House Committee on Armed Services was appointed to look into the extent to which commissary stores were necessary. During hearings held by the subcommittee, an Assistant Secretary of the Navy, acting for the military departments, stated that commissary stores are not established " \* \* \* where adequate commercial facilities are conveniently available at reasonable prices," and in explanation of this also stated :

"Our concern is that at an isolated station where we do not have civilian stores whose prices are kept in line by adequate competition, we must protect our people. Clearly, in Washington, New York, Philadelphia, Baltimore, or any city where you have commercial facilities which sell commodities at reasonable prices the need for the military to run its own shop [commissary stores] disappears."

\* \* \* \* \*

"We propose to abolish them [commissary stores] where commercial facilities are otherwise available where our people can purchase goods at reasonable prices \* \* \*."

At the close of the hearings, the chairman of the House Committee on Armed Services stated :

"The whole theory of the commissary privilege \* \* \* was originally to give it to the people who were at isolated stations who did not have the benefit of metropolitan sales. That is the whole theory and the only justification for it. It was never intended that the Government should go in the business of providing for its personnel where they have the privilege and the opportunity to go to a private place to buy. It was intended on account of the remoteness of stations to accommodate them."

In an exchange of letters between the Assistant Secretary of the Navy and the chairman of the subcommittee, it was agreed that " \* \* \* commissary stores would be discontinued within areas where adequate commercial facilities exist and make sales at a reasonable cost." An armed services commissary store regulation submitted to the subcommittee stated, "The establishment of commissary stores shall not be authorized in areas where adequate commercial facilities are conveniently available and sell commissary merchandise at reasonable prices \* \* \*." The chairman of the subcommittee advised the military depart-

ments by letter dated August 22, 1949, that the regulation represented the conclusions and decision of the subcommittee as reported to the House Committee on Armed Services.

The report of the subcommittee as agreed to by the House Committee on Armed Services contained the following statements:

"\* \* \* it is the committee recommendation that commissary stores now in operation in areas where it has been determined that adequate facilities are conveniently available at reasonable prices shall be disestablished on or before January 1, 1950. The committee recognizes the fact that commissaries were originally established for the convenience of military personnel who were not conveniently located to comparable civilian facilities. We are of the opinion that the sole justification for the continuance of commissary stores is to provide a convenient means of procuring commissary supplies when such convenience has been lost as a result of being in or associated with the military services.

"[As to the point made by the military departments that one of the purposes of the commissary stores is to augment the pay of underpaid military personnel], \* \* \* we wish to point out that House Committee on Armed Services has led the way in attempts to increase the pay of service personnel through appropriate legislation.

"The privileges which we have preserved [including retention of the commissary stores that are not to be closed on or before January 1, 1950] are very substantial and are sufficiently attractive to encourage future violations. It is obvious that such violations cannot occur unless military personnel, and other authorized patrons, become a party to the violation. We stress this word of warning, that if such violations continue they will inevitably result in further congressional investigation. The future of resale activity privileges in the armed services is entirely within the hands of those who will continue to enjoy those privileges. They shall either protect them and keep them or abuse them and lose them."

In September 1949, criteria for implementing the previously quoted requirement of the armed services commissary store regulation were published. The criteria included the requirement that prices at commercial stores shall be considered unreasonable if they exceed the delivered invoice cost of the merchandise to the commissary stores by 20 percent. The 20-percent figure had been derived from statistics published by a trade magazine to represent the average percentage by which supermarkets marked up the cost of merchandise in 1947 to determine their selling prices. The criteria also prescribed standards to determine when distances to commercial stores were to be considered unreasonable. The commercial stores also had to be adequate as to floor space, capacity to serve additional customers, etc. These criteria were used by the military departments in authorizing commissary stores before August 1953.

In effect, the price criterion worked in this way: The bare cost of merchandise (exclusive of commissary operating costs) was marked up by 20 percent and compared with prices of commercial stores. Any excess of commercial prices, no matter how small, meant that commercial store prices were considered to be unreasonable and, thus, authorization of a commissary store was permitted. The 20-percent markup was used for this purpose only and did not appear in the selling prices charged at commissary stores. As mentioned previously, selling prices at commissary stores were never more than the bare cost of merchandise plus a small surcharge.

After the first application of the criteria of September 1949, 24 commissary stores were closed. Many of these stores, however, were closed because of deactivation of installations. In a letter addressed in March 1950 to the chairman of the House Committee on Armed Services to announce the closing of the 24 stores, the military departments mentioned that they proposed to reopen<sup>1</sup> any store the closing of which would work a hardship on military personnel, and stated that any proposal to close commissary stores in the future should be effected by amending the law. In connection with the last statement, the Army stated in a memorandum to the Armed Forces Policy Council that by taking this stand "\* \* \* the military services and interested veterans organizations would be afforded a full open hearing of their strong case for continuance of the commissary system."

From that time through August 1953, only one commissary store was closed because of the criteria.

<sup>1</sup> At least three of the stores were reopened later in the same year.



In 1953, the Congress expressed concern with the failure of the military departments to reduce the number of commissary stores. A report of the Senate Committee on Appropriations in July 1953 contained the following statements:

"The committee fails to find any justification for the continuation of \* \* \* sales commissaries at military installations which are surrounded by or which abut metropolitan areas. \* \* \* The committee also believes that at those military installations which are removed from metropolitan trading centers by longer distances, the operation of \* \* \* sales commissaries should also be curtailed.

This could be accomplished by \* \* \* arrangements \* \* \* guaranteeing to the military personnel at such stations that the prices charged would in no instance exceed those prevailing at the nearest metropolitan areas."

*Law enacted in 1953 to eliminate commissary stores where reasonable commercial prices are available was thwarted.*

As a result of the congressional dissatisfaction with the failure to close commissary stores, the Department of Defense Appropriation Act, 1954, approved August 1, 1953 (Public Law 83-179), included for the first time the requirement for certification of the need for commissary stores by the Secretary of Defense. Under this law, which appears unchanged in all Department of Defense appropriation acts enacted since 1953, the Secretary of Defense is required to authorize the establishment or continuation of commissary stores in the continental United States by means of a certification 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." A certificate for this purpose must be issued by the Secretary of Defense to each of the military departments to authorize the operation of specified commissary stores for each calendar year. The law contained no specific guidance as to the meaning of reasonable prices and distances.

Since August 1953, not one commissary store has been closed as a result of this law. On the other hand, the number of commissary stores in the United States has increased under the law from about 210 at the time the law was enacted to 289 certified for operation in the calendar year 1964.

The price and distance criteria used by the military departments to comply with the law are substantially the same as those in force since 1949 and are discussed below.

*Faulty price criterion has assured continuance of commissary stores*

The method of measuring reasonable prices prescribed by the Department of Defense under law to determine the need for commissary stores not only utilizes an average markup for commissary merchandise of 20 percent which is obsolete and significantly understated but also fails to recognize that the most reasonable prices are those that prevail under conditions of full and free competition. Furthermore, the use of a single average markup factor for the entire United States is inappropriate because it does not recognize that there are varying levels of reasonable prices in the country. For these and other reasons, the prices of commercial retail food stores almost without exception have been found by the military to be unreasonable despite the generally effective competitive conditions experienced by these stores and their resultant low profit margins.

The criterion in force since August 1953 for determining "reasonable prices" is as follows:

The commercial store prices—averaged for the two most adequate and convenient stores "shall be considered unreasonable" if they are 20 percent or more in excess of the bare cost of merchandise to the commissary stores. The comparative prices are to be determined for a standard market basket.<sup>2</sup>

When this criterion was established in August 1953, the Assistant Secretary of Defense (Comptroller) withheld concurrence on the ground that the 20 percent figure was unrealistic because he believed the Congress intended that reasonable prices were those established by free and adequate competition. Nevertheless, on August 17, 1953, the Assistant Secretary of Defense (Manpower)<sup>3</sup> prescribed the 20 percent figure, presumably on the basis of state-

<sup>2</sup> The "market basket" that is priced comparatively for this purpose consists of 82 to 88 "standard items and quantities representing the annual purchases of an average family, as computed by the Bureau of Labor Statistics, U.S. Department of Labor."

<sup>3</sup> At the time this Office was known as Manpower and Personnel.

ments in a memorandum prepared in his office a few days previously. These statements included the following:

"The Comptroller's recommendation would in effect eliminate most commissaries on the basis of definition of reasonable price."

"If the Comptroller's recommendation is followed the DOD will be in the position in effect of eliminating commissary stores by an interpretation that it is doubtful that the Congress intended."

"The OASD (Comptroller) recommendation would also constitute another instance of denying a long-established and accepted benefit, and another abrogation of a tacit contract on enlistment."

"It is recommended that the attached memorandum [prescribing the 20 percent figure] be approved."

The memorandum does not mention whether or not the Department of Defense consulted or proposed to consult with the Congress to resolve the doubtful interpretation.

We were informed by a responsible official that in September 1959 the Office of the Assistant Secretary of Defense (Manpower),<sup>4</sup> for the first and last time since August 1953, raised the question of revising the criteria and asked the military departments to submit their suggestions for updating the criteria. In reply, the Army suggested that the price differential of 20 percent should be changed to 24 percent so as to use the statistics published by Harvard University in September 1959 for markups by commercial food stores. The Air Force replied as follows:

"The Air Force considers commissary stores to be an integral part of military fringe benefits and a morale factor taken into consideration when deciding to make a career of the service \* \* \*." " \* \* \* any further instructions limiting the present criteria would jeopardize continued operations of our commissary stores. Accordingly, it is recommended that no changes be made \* \* \* which would further limit commissary operations."

No reply from the Navy could be found. The price criterion was not updated and the Office of the Assistant Secretary of Defense (Manpower) informed us that no record could be found of who made the decision to continue using the same criterion.

In reviewing compliance by the Department of Defense with the law over the past 10 years, we found that under its price criterion all commercial stores surveyed, with rare exceptions, were found to charge unreasonable prices. The military departments applied the price criterion in about 2,400 surveys during the past 10 years and about 2,350 or 98 percent of these surveys disclosed that commercial stores charged unreasonable prices. No commissary stores were closed, however, because those commercial stores with reasonable prices were not considered within reasonable distances of the installations. All commercial stores surveyed by the military departments from 1959 through 1963 were found to charge unreasonable prices. Establishments that were found to be charging unreasonable prices included such well-known highly competitive chain food stores as A. & P., Safeway, and Kroger.

As a general rule, the thousands of commercial food stores across the United States, representing many large and small companies, are in strong competition with each other in their respective shopping areas. Recent studies by Cornell University show that profit margins are extremely low in the highly competitive retail food industry. It is apparent that, in general, prices at commercial stores are established under circumstances of full and free competition and should be considered reasonable. It is further evident that any criterion which determines otherwise is not realistic.

Under the Department of Defense (DOD) price criterion, 20 percent is added to the bare cost of merchandise in the commissary stores<sup>5</sup> and the result is compared with the average selling prices charged by two commercial stores. This 20-percent markup factor is based on 1947 data and has not been updated. We found that statistics for food chainstores published by Harvard and Cornell Universities for the years 1961 and 1962 show that the average markup, measured as a percentage of the cost of merchandise, has risen to 28 percent and ranged from 25 percent in the South to 31 percent in the West. On the basis of these figures, the 20-percent average markup factor is understated by 8 percentage

<sup>4</sup> At the time this Office was known as Manpower, Personnel, and Reserve.

<sup>5</sup> The addition of 20 percent is made only for purposes of comparison. It is not included in the prices actually charged by the commissary stores. As mentioned previously, selling prices at commissary stores since August 1953 have been the bare cost of merchandise plus a surcharge that has been for many years and is now about 3 percent.

points or by 40 percent. The continued use of this obsolete markup factor of 20 percent to measure the difference between commissary and commercial prices virtually assures the continuance of commissary stores.

Should DOD update its price criterion so as to recognize the current commercial markup of 28 percent, the use of a single average markup factor to measure reasonable prices throughout the United States would nevertheless be improper. It is well established that prices of commercial retail stores vary in the United States depending on the geographical area, extent of competition, individual store pricing policies and costs, and other factors. This is confirmed, for example, by the difference in the average markup noted above of 25 percent in the South and 31 percent in the West. Consequently, the use of an average markup factor of 28 percent throughout the United States would result in closing relatively more commissary stores in the South than in the West, even though the prices of commercial food stores in each area are established under comparable competitive conditions. Moreover, even the use of an average markup factor for each of the geographical areas with varying levels of reasonable prices would be inappropriate because any such average would automatically classify as unreasonable those prices that are barely higher than the average.

The manner in which the military departments determine commercial store prices also produces inappropriate comparisons. These prices are required to be obtained by the military departments from commercial stores on a Tuesday, Wednesday, or Thursday. Our review of the commissary operations in the Washington area disclosed that in almost every case commercial prices were obtained only on Tuesday and Wednesday. However, it is a widespread practice among retail food stores to sell certain items at lower prices on Thursday, Friday, and Saturday, when the majority of the people do their shopping. For example, a "market basket" was priced on Wednesday, August 7, 1963, and included a price of 99 cents a pound for round steak at a nearby chainstore. On the next day—Thursday—however, the price at the same chain store was 87 cents a pound, an end-of-the-week reduction, 12 percent. The selling price of the item at the commissary store was 79 cents a pound. Ignoring the lower commercial prices on these items at the end of the week results in the military departments' computing an unduly high price for the "market basket" at commercial stores and, thus, overstating the price differentials that exist between commercial and commissary stores. Furthermore, the "market basket" comparison disregards certain direct or indirect price reductions in commercial store prices, such as discounts by way of trading stamps.

The manner in which the military departments determine commercial prices also appears inappropriate because the prices for individual items are based on the average prices in two stores, whereas many consumers shop in several commercial stores buying those items which are most favorably priced.

The unreasonable results obtained from the price criterion are illustrated by the following examples of commissary stores authorized for the calendar year 1963:

1. The largest commissary store in the United States is operated by the Army at Cameron Station, Va., considered as part of the Washington, D.C., metropolitan area. A Grand Union store is 1 minute's riding time and a Food Fair store 2 minutes' riding time by automobile from the commissary store. Several other well-known chain food stores are located within 10 minutes' riding time from the commissary store. The Army selected Grand Union and Food Fair stores for the survey, averaged their prices for the market basket, and compared the result with the bare merchandise cost paid for the same items by the commissary store. It was found that the prices of the two commercial stores exceeded the bare cost of the items at the commissary store by 35 percent. As only a 20-percent differential was permitted under the price criterion, the prices of the commercial stores were automatically considered unreasonable and the commissary at Cameron Station was authorized to continue its operation. For the fiscal year 1963, the sales of this commissary were \$10.4 million. The total cost to the Government for operating this store is not known. However, pay and allowances of military and civilian personnel employed at the store in 1963 that were not charged to customers amounted to \$1 million.

2. A commissary store is operated at Fort Myer in the Washington, D.C., metropolitan area. A Safeway store is 1 minute's riding time and a Giant store is 5 minutes' riding time from the commissary store. Within 10 minutes' riding time, numerous well-known food stores are operating in competition with each other. The survey disclosed that the Safeway and Giant prices for a market basket on the average exceeded the bare cost of merchandise to the commissary store by 29 percent. As only a 20-per-

cent differential was permitted under the price criterion, the commercial store prices were automatically considered unreasonable and the commissary was authorized to continue during 1963. For the fiscal year 1963, the sales of this commissary amounted to \$7.6 million. The total cost to the Government for operating this store is not known. However, pay and allowances of military and civilian personnel employed at the store in 1963 that were not charged to customers amounted to \$640,000.

*Distance criterion unreasonably short and not applicable to most commissary customers*

According to the distance criterion, the fact that the nearest adequate commercial store is not within 10 minutes' traveltime by automobile from the military installation justifies under law the authorization of a commissary store because of unreasonable distance. This traveltime, however, is not applicable to most customers of commissary stores because they live off, and often relatively far from, military installations, generally in communities that have nearby shopping centers. As to the remaining customers who live on the military installations, the traveltimes used to justify operation of a commissary store are unrealistically short because under modern conditions grocery shopping requires less frequent visits to the store, usually only one lengthy visit a week.

The criterion in force since August 1953 for determining "reasonable distances" from military installations to commercial stores is as follows:

For patrons using a private conveyance, a reasonable distance is not to exceed 10 minutes' traveltime from the installation to the nearest adequate commercial store.<sup>6</sup> For patrons using commercial or military transportation, a reasonable distance is not to exceed 15 minutes from the installation to the nearest adequate commercial store, but trips must be scheduled at intervals of not to exceed 30 minutes. When less than 50 families live on the installation, or immediately adjacent thereto, the times mentioned above are 15, 20, and 60 minutes, respectively. Traveltime is measured from the center of the quarters area of the installation. When no persons live on the installation, or immediately adjacent thereto, the commercial stores are to be considered as within a reasonable distance.

In September 1959, the Office of the Assistant Secretary of Defense (Manpower, Personnel, and Reserve) raised the question of revising the distance criterion. In a letter to the military departments, the Office expressed the view that the reasonable distance criterion was susceptible to criticism and asked for suggestions, particularly if changes could be made "in such a manner as to cause no reduction in present \* \* \* facilities." However, the military departments proposed no changes in the distance criterion and the Office made no changes of its own accord. (See p. 14.)

Over 80 percent of all commissary store customers during 1963 did not live at military installations. For example, commissary stores in the Washington metropolitan area at Fort Myer, Fort McNair, and Andrews Air Force Base reported in total that almost 96 percent of their customers lived off base. Commissary stores are, therefore, patronized mostly by nonresident customers who often travel comparatively long distances to reach the commissary stores. Consequently, the prescribed traveltimes are of significance to only a small proportion of the customers of the commissary stores who are base residents. As a result, even if prices at commercial stores were considered reasonable, commissary stores could be established solely for the convenience of a relatively small number of base resident customers, and the commissary stores would then be available for the use of the comparatively large number of nonresident customers.

Records of the military departments show that over 96 percent of base resident customers during 1963 had the use of private automobiles. For example, the three commissary stores mentioned above reported that over 99 percent of their resident customers had the use of a private automobile. According to the distance criterion, originally developed in 1949, a commissary store can be justified if resident customers require more than 10 minutes of travel by automobile to reach the nearest adequate commercial store.

The objective of the distance criterion should be to assure that resident customers do not have to travel for unreasonably long times to do their grocery shopping. As the grocery shopping problem for the average family has been considerably reduced by improved transportation facilities, better highways, and the advent

<sup>6</sup> Either one of the same two stores used in the price comparison under the price criterion.

of more and larger grocery stores, and as the need for frequent shopping has been largely eliminated through the use of refrigerators and freezers, there has been a change in shopping habits. Grocery shopping for the average family is now ordinarily done once a week over an extended period. This weekly shopping is often supplemented through home deliveries of such items as bread and milk by commercial suppliers. Consequently, under the conditions that exist today, the traveltimes in the distance criterion appear unrealistically short.

Examples of the unreasonableness of the distance criterion follow:

1. A commissary store at Malmstrom Air Force Base, Great Falls, Mont., was authorized for 1963 on the basis that commercial stores were at an unreasonable distance and charged unreasonable prices. According to the military department's survey, of the 2,556 customers, 1,206 were base residents,<sup>7</sup> 1,250 were assigned to but living off the base, and 100 were neither assigned to nor living on the base. All 1,206 resident customers had the use of private automobiles. The travel time from the base was 11 minutes to each of the commercial stores by automobile. Solely because a trip to the nearest adequate commercial facility required an automobile ride of 11 minutes (compared with the prescribed 10 minutes), the reasonable distance criterion was not satisfied.

2. A commissary store at Fort Benjamin Harrison, Indianapolis, Ind., was authorized for 1963 on the basis that commercial stores were at an unreasonable distance and charged unreasonable prices. According to the military department's survey, of the 1,697 customers, 443 were base residents, 786 were assigned to but living off the base, and 468 were neither assigned to nor living on the base. The traveltime to the two commercial stores was only 4 and 7 minutes by automobile. Five of the 443 resident customers did not have the use of a private automobile. Consequently, the question of reasonable distance was of concern to only these five resident customers. The criterion was not satisfied, however, because the traveltime by public conveyance was 14 minutes to one store and 17 minutes to the other store (compared with the prescribed 15 minutes) and the interval between scheduled trips was 60 minutes to one store and 90 minutes to the other store compared with the prescribed 30 minutes.)

#### *Wasteful expenditure of \$1 million since 1953 on annual surveys*

Each year since 1953 the military departments have conducted annual surveys at each commissary store in the United States with substantially the same results. For example, the surveys in 1963 for the purpose of authorizing commissary store operations in the calendar year 1964 disclosed that (1) 100 percent of the commissary stores were authorized because commercial store prices were unreasonable and (2) 74 percent of the stores were authorized because distances to commercial stores were unreasonable. As previously shown in the report, in prior years when the price criterion failed in rare instances to justify authorization of a commissary store, the distance criterion prevented the closing of the store. In combination, therefore, these two criteria succeeded in defeating the purpose of the law.

Although it has been obvious that the criteria are ineffective and that, as a foregone conclusion, prices or distances of all commercial stores will be found unreasonable, the military departments have continued year after year to make these surveys in connection with the certification of commissary stores required by law. This has entailed an obvious waste of manpower. Based on information obtained from the military departments, we estimate that such surveys are costing the Government about \$100,000 a year, or about \$1 million since 1953.

#### *Under any realistic criteria more than half the commissary stores would be closed*

It seems clear that a more realistic implementation of the law would be to recognize that, as a general rule, prices at competitive commercial stores are reasonable. Also, as most patrons of commissary stores live off the base near commercial stores, travel times up to 15 to 20 minutes by automobile for those who do live on the base do not seem unreasonable. According to the military departments' surveys in 1963, over 70 percent of the total number of commissary stores are within 20 minutes by automobile from the nearer of the two commercial stores considered, and over 60 percent are within 20 minutes from the farther of the two commercial stores.

On this basis, we estimate that more than half the 289 commissary stores authorized to operate in the United States in calendar year 1964 could be closed without causing military personnel to pay unreasonable prices or travel unreasonable distances.

<sup>7</sup> Base residents include those living immediately adjacent to the base.

### *Conclusions*

In 1949, the Congress was led to believe that regulations issued by the military departments would restrict the number of commissary stores. However, the military departments established various criteria under the regulations that were ineffective in achieving their ostensible purpose. After it became evident that more effective action was called for, the Congress included in the Department of Defense Appropriation Act, 1954, the specific requirement that the Secretary of Defense authorize by certification the operation of each commissary store only if reasonable prices were not otherwise available at reasonable distances. Nevertheless, the Secretary of Defense continued to use under law essentially the same criteria that had been ineffective under earlier regulations.

We believe it is evident that the criteria distort rather than define the generally accepted understanding of what are reasonable prices and reasonable distances. Consequently, since 1953 the military departments, with the concurrence of the Office of the Secretary of Defense, have been going through the motion of complying with the requirements of the law, even though it was obvious that the criteria would rarely if ever result in closing any commissary stores. These surveys have cost the Government about \$1 million since 1953. Continued use of the same criteria will merely perpetuate the waste of about \$100,000 a year involved in certifying the operation of commissary stores.

On the basis of the congressional committee hearings leading to legislation covering the authorization of commissary stores, we believe it was intended that military personnel not be unduly inconvenienced or charged unreasonable prices due to lack of competition. This would tend to restrict commissary stores to remote locations. However, despite the restrictions appearing in the annual appropriation acts for the Department of Defense since 1953, no commissary stores have been closed because of this law; instead, the number of commissary stores has increased by about 38 percent. Thus, over the years the commissary store privilege has become an increasingly important fringe benefit to military personnel, because of the determination of the military departments not to curtail the commissary store system.

The justification advanced over the years by the military departments for maintaining a widespread commissary store system has been that the fringe benefit has become, as a practical matter, a part of the pay structure for military personnel and that, consequently, the curtailment of the fringe benefit would represent a reduction in remuneration and would adversely affect the morale of military personnel. While commissary store privileges are available to all military personnel, they obviously are not needed by the vast number of military personnel fed in messhalls, and such personnel would not be affected by limitations on commissary store operations. In any event, we believe that any inadequacy of pay and allowances to military personnel should be brought to the attention of the Congress as a matter to be decided on its merits, apart from the need for commissary stores.

### *Recommendations*

In view of the ineffectiveness of the restriction contained in each annual appropriation law enacted since August 1953 in deterring the continued operation and growth of military commissary stores and in view of the fact that competitive commercial food stores are generally located reasonably close to most military installations in the continental United States, we suggest that the Joint Economic Committee consider recommending to the Congress the enactment of legislation to establish precise conditions under which the operation of military commissary stores may be authorized. Also, to the extent that the operation of commissary stores may be authorized, the Congress may wish to consider providing for selling prices to be set at the level of competitive commercial retail prices in order to avoid inequities between personnel at installations having commissary stores and personnel at installations not having commissary stores.

Pending action by the Congress to clarify its position with regard to commissary stores, we believe that it would be desirable to omit from future appropriation acts for the Department of Defense the requirement for the annual certification of commissary stores by the Secretary of Defense. This will avoid the expenditure of about \$100,000 a year for surveys of the type now conducted for the purpose of authorizing commissary stores.

(Apps. I and II, immediately following, relate to the preceding report only.)

**APPENDIX I**

*Principal officials of the Department of Defense concerned with the subject matter of this report (since July 1953)*

	Tenure of office	
	From	To
<b>DEPARTMENT OF DEFENSE</b>		
Secretary of Defense:		
Robert S. McNamara.....	January 1961.....	Present.
Thomas S. Gates, Jr.....	December 1959.....	January 1961.
Nell H. McElroy.....	October 1957.....	December 1959.
Charles E. Wilson.....	January 1953.....	October 1957.
Deputy Secretary of Defense:		
Cyrus R. Vance.....	January 1964.....	Present.
Roswell L. Gilpatrick.....	January 1961.....	January 1964.
James H. Douglas.....	December 1959.....	January 1961.
Thomas S. Gates, Jr.....	June 1959.....	December 1959.
Donald A. Quarles.....	May 1957.....	May 1959.
Reuben B. Robertson, Jr.....	August 1955.....	April 1957.
Robert B. Anderson.....	May 1954.....	August 1955.
Roger M. Kyes.....	February 1953.....	May 1954.
Assistant Secretary of Defense (Manpower): <sup>1</sup>		
Norman S. Paul.....	August 1962.....	Present.
Carlisle P. Runge.....	February 1961.....	July 1962.
Charles C. Finucane.....	July 1958.....	January 1961.
William H. Francis, Jr.....	April 1957.....	June 1958.
Carter L. Burgess.....	September 1954.....	January 1957.
John A. Hannah.....	February 1953.....	July 1954.
<b>DEPARTMENT OF THE ARMY</b>		
Secretary of the Army:		
Stephen Alles.....	January 1964.....	Present.
Cyrus R. Vance.....	July 1962.....	January 1964.
Elvis J. Stahr, Jr.....	January 1961.....	June 1962.
Wilber M. Brucker.....	July 1955.....	January 1961.
Robert T. Stevens.....	February 1953.....	July 1955.
Under Secretary of the Army:		
Paul R. Ignatius.....	February 1964.....	Present.
Stephen Alles.....	February 1961.....	January 1964.
Hugh M. Milton II.....	August 1958.....	January 1961.
Charles C. Finucane.....	February 1955.....	April 1958.
John Slezak.....	February 1954.....	January 1955.
Earl D. Johnson.....	October 1952.....	January 1954.
Deputy Under Secretary (Manpower and Reserve Forces): <sup>1</sup>		
Arthur W. Allen, Jr.....	September 1963.....	Present.
Alfred B. Pitt.....	July 1961.....	August 1963.
Dewey Short.....	December 1958.....	January 1961.
Hugh M. Milton II.....	November 1953.....	August 1958.
<b>DEPARTMENT OF THE NAVY</b>		
Secretary of the Navy:		
Paul H. Nitze.....	November 1963.....	Present.
Fred Korth.....	January 1962.....	November 1963.
John B. Connally.....	January 1961.....	December 1961.
William B. Franke.....	June 1959.....	January 1961.
Thomas S. Gates, Jr.....	April 1957.....	June 1959.
Charles S. Thomas.....	May 1954.....	April 1957.
Robert B. Anderson.....	February 1953.....	May 1954.
Under Secretary of the Navy:		
Paul B. Fay, Jr.....	February 1961.....	Present.
Fred A. Bantz.....	June 1959.....	January 1961.
William B. Franke.....	April 1957.....	June 1959.
Thomas S. Gates, Jr.....	October 1953.....	April 1957.
Charles S. Thomas.....	February 1953.....	August 1953.
Assistant Secretary of the Navy (Personnel and Reserve Forces): <sup>2</sup>		
Richard Jackson.....	September 1957.....	January 1961.
Albert Pratt.....	October 1954.....	February 1957.
James H. Smith, Jr.....	July 1953.....	October 1954.

See footnotes at end of table, p. 361.

*Principal officials of the Department of Defense concerned with the subject matter of this report (since July 1953)—Continued*

	Tenure of office	
	From	To
DEPARTMENT OF THE AIR FORCE		
Secretary of the Air Force:		
Eugene M. Zuckert.....	January 1961.....	Present.
Dudley C. Sharp.....	December 1959.....	January 1961.
James H. Douglas.....	May 1957.....	December 1959.
Donald A. Quarles.....	August 1955.....	May 1957.
Harold E. Talbot.....	February 1953.....	August 1955.
Under Secretary of the Air Force:		
Brockway McMillan.....	June 1963.....	Present.
Joseph V. Charyk.....	January 1960.....	March 1963.
Dudley C. Sharp.....	August 1959.....	December 1959.
Malcolm A. MacIntyre.....	June 1957.....	July 1959.
James H. Douglas.....	March 1953.....	April 1957.
Special assistant for Manpower, Personnel, and Reserve Forces: <sup>4</sup>		
Benjamin W. Fridge.....	June 1961.....	Present.
Lewis S. Thompson.....	April 1959.....	January 1961.
David S. Smith.....	October 1954.....	January 1959.
H. Lee White.....	February 1953.....	July 1954.

<sup>1</sup> Assistant Secretary of Defense (Manpower, Personnel, and Reserve (prior to February 1961; and Assistant Secretary of Defense (Manpower and Personnel) prior to September 1965.  
<sup>2</sup> Deputy to the Under Secretary for Manpower prior to September 1963; and Assistant Secretary of the Army (Manpower and Reserve Forces) prior to January 1961.  
<sup>3</sup> Assistant Secretary of the Navy for Air prior to October 1954; Assistant Secretary of the Navy (Personnel and Reserve Forces) thereafter until January 1961, when office disestablished and manpower functions transferred to the Under Secretary of the Navy.  
<sup>4</sup> Assistant Secretary for Management prior to October 1954.

APPENDIX II

*Selected statistics for commissary stores (furnished by the military departments)*

1. COMMISSARY STORES OPERATED, WORLDWIDE

	June 30, 1953, Conus <sup>1</sup>	June 30, 1963		
		Conus <sup>1</sup>	Overseas	Total
Army.....	80	74	98	172
Navy.....	34	54	35	89
Marine Corps.....	7	13	1	14
Air Force.....	90	128	74	202
Total.....	211	269	208	477

<sup>1</sup> Continental United States.

2. COMMISSARY STORES SALES, WORLDWIDE, FISCAL YEAR 1963

[In thousands]

	Conus	Overseas	Total
Army.....	\$240,420	\$107,625	\$348,054
Navy.....	127,284	50,283	177,567
Marine Corps.....	27,810	3,256	31,066
Air Force.....	334,259	81,438	415,697
Total.....	<sup>1</sup> 729,782	242,602	972,384

<sup>1</sup> Consists of cost of merchandise, \$708,887, and surcharge for those operating expenses that are reimbursed in accordance with law, \$20,895.



*Selected statistics for commissary stores (furnished by the military departments)—Continued*

## 3. COMMISSARY STORES OPERATING RESULTS, CONUS, FISCAL YEAR 1963

[In thousands]

	Sales <sup>1</sup>	Cost of sales <sup>2</sup>	Gross profit <sup>3</sup>	Expenses <sup>4</sup>	Net profit or loss (-) <sup>5</sup>
Army.....	\$240,429	\$233,642	\$6,787	\$5,720	\$1,067
Navy.....	127,284	122,660	4,624	5,175	-551
Marine Corps.....	27,810	26,885	925	950	-25
Air Force.....	334,259	325,700	8,559	8,111	448
Total.....	729,782	708,887	20,895	19,956	939

<sup>1</sup> Including surcharge.<sup>2</sup> Bare cost of merchandise.<sup>3</sup> Equivalent to surcharge.<sup>4</sup> Utilities and other expenses paid for from the surcharge.<sup>5</sup> Before charging major expenses such as pay, rentals, etc.

## 4. COMMISSARY STORES CUSTOMERS, CONUS, 1963

[In thousands]

	Assigned to base		Others	Total
	Living on base	Living off base		
Army.....	66	129	186	381
Navy.....	36	209	( <sup>1</sup> )	( <sup>1</sup> )
Marine Corps.....	18	18	( <sup>1</sup> )	( <sup>1</sup> )
Air Force.....	109	245	119	473
Total.....	229	601	( <sup>1</sup> )	( <sup>1</sup> )

<sup>1</sup> Not reported.

## 5. COMMISSARY STORES PERSONNEL, CONUS, JUNE 30, 1963

	Military personnel		Civilians	Total
	Officers	Enlisted men		
Army.....	16	92	3,026	3,134
Navy.....	59	1,571	912	2,542
Marine Corps.....	10	36	479	525
Air Force.....	36	1,228	3,667	4,931
Total.....	121	2,927	8,084	11,132

(End of GAO Report on Commissaries.)

NATIONAL ASSOCIATED BUSINESSMEN, INC.,  
Washington, D.C., May 18, 1964.

Senator PAUL H. DOUGLAS,  
Joint Economic Committee,  
New Senate Office Building,  
Washington, D.C.

DEAR SENATOR DOUGLAS: I enclose a brief statement regarding the Defense Department's commissaries, subject matter of recent hearings by your Subcommittee on Defense Procurement.

I request that this statement be included in the printed transcript of the hearings.

My highest regards to you, sir.

Sincerely,

ELTON KILE.

## STATEMENT OF ELTON KILE, PRESIDENT, NATIONAL ASSOCIATED BUSINESSMEN, INC.

National Associated Businessmen, Inc., is a single-purpose organization—that purpose being immediate curtailment and eventual elimination of Government business in competition with taxpaying private enterprise. The hundreds of companies that comprise our membership are economically hurt by the unfair competition of enterprises of various sorts which are owned and operated by the Government. A substantial percentage of these companies are especially bothered by the direct competition of the Defense Department's commissaries and PX stores—and their troubles increase because the military stores increase, instead of decreasing as was ordered by the Congress 10 years ago.

A year ago, in a statement filed with this subcommittee and printed in the record of hearings held at that time, our association called special attention to three items of Government competition which we believed should be eliminated at once: First, the 2 percent loans of 4 percent Government funds granted to the Rural Electrification Administration; second, the Post Office Department's savings banks, which outlived their usefulness years ago; third, the Defense Department's commissaries and PX stores, which have grown to rank in dollar volume of business along with the top taxpaying leaders of industry, where their freedom from taxes and overhead gives them a devastating advantage over smaller concerns.

National Associated Businessmen itself has no objection to the operation of Defense Department commissaries in connection with installations of our Armed Forces in foreign lands, and I am sure that this is true also of our individual members. Nor do we protest the commissaries and PX stores at Army posts which are widely separated from cities and towns where commercial stores are located.

But we do object to Government operation of nontaxpaying, cut-price grocery stores and what amount to full-fledged department stores in locations where taxpaying establishments are available and convenient.

It is to be expected that there will be objection to any cutback of the Army grocery stores, by those who are the beneficiaries, directly and indirectly, of the system. As someone has said, "Nobody shoots Santa Claus"—and the military grocery stores and department stores are certainly playing Santa Claus for a great many people, including some who have no justifiable right to the service.

Basically, NAB is for S. 1093 and H.R. 4926, identical bills which propose to establish a Federal policy concerning the termination, limitation, or establishment of busines-type operations of Government which may be conducted in competition with private enterprise.

To pinpoint the broad policy proposed by S. 1093, so that there may be immediate curtailment of the commissaries, we urge action on H.R. 11259, by Representative Thomas B. Curtis, of Missouri, to promote private enterprise in the United States by the curtailment in the competitive operation of military commissary stores.

It is the long-established policy of National Associated Businessmen "to encourage private enterprise," as stated in section 1 of H.R. 11259, "and to curtail the encroachments thereon by competition from military commissary stores \* \* \*"

It is our hope that this may also be the policy of the U.S. Government—and soon.

---

ASSISTANT SECRETARY OF DEFENSE (MANPOWER),  
*Washington, D.C., June 16, 1964.*

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

DEAR MR. CHAIRMAN: In accordance with your request, the General Accounting Office report to the Joint Economic Committee subject "Failure to Curtail Operations at Government Expense of Military Stores in Continental United States Where Adequate Commercial Facilities are Available" has been reviewed within the Department of Defense.

As stated in the report, a subcommittee of the House Armed Services Committee conducted an extensive investigation into the operation of military commissary stores during 1949. On the basis of an agreement reached between the House Armed Services Committee and the military departments, certain criteria were communicated to the services, which authorized the establishment or continued operation of commissary stores in those cases where available commercial facilities were inadequate or inconvenient, or where the average

commercial selling prices of these facilities for comparable items exceeded by 20 percent the cost of such items in the commissary store.

While commissary stores were first examined by the military departments for establishment and/or continued operation under these new criteria in 1950, it was not until passage of the 1954 Department of Defense Appropriations Act that it was required they be certified annually for continued operation by the Secretary of Defense. Since the language in the act was substantially similar to that in the Armed Services Commissary Store Regulations, no essential change in criteria and procedures previously used by the military departments in their yearly examination was necessary, and the term "reasonable price" for purpose of certification has continued to be based on a 20 percent price differential. Congress was aware of this interpretation when the passed the 1954 act and was again informed of this interpretation during the hearings on the 1956 DOD Appropriations Act. Moreover, the Armed Services Committee of the House and the Senate have been kept constantly informed of the Department's policy in this matter.

The commissary privilege for active duty and retired military personnel has had a long history of congressional recognition and sanction, and along with medical care and other benefits of a similar nature, has consistently been taken into consideration in establishing military pay schedules. For example, the privilege was thoroughly considered by the Hook Commission (Advisory Commission on Service Pay appointed by Secretary Forrestal and headed by Mr. Charles R. Hook), which deemed it to be balanced to a large extent by the hardships and disadvantages of military life.

The report of the House Armed Services Committee on H.R. 5007, 81st Congress, the Career Compensation Act of 1949 (Rept. No. 779), commented that in establishing the pay scales proposed by that bill, the matter of so-called hidden benefits, such as hospitalization, commissary, and post exchange privileges, were considered. The report also reached essentially the same conclusions as the Hook Commission, i.e., that these special benefits were largely balanced out by the special expense of military service. In addition, the Senate Armed Services Committee Report 1255 on H.R. 5715, 82d Congress, the Armed Forces Pay Raise Act of 1952, clearly recognized the commissary privilege as one of the special emoluments of military service.

The importance of commissaries was also recognized by the Defense Advisory Committee on Professional and Technical Compensation in their report to the Secretary of Defense in 1957 (Cordiner Committee Report). This committee recommended that continuing action be taken to reestablish and maintain appropriate "fringe benefits" for service personnel and their dependents, including adequate commissary facilities. The committee recommended further that Congress and the public be informed of the significance and relationship of these aspects of service life to the maintenance of an effective military manpower program.

In developing its recommendations to the Secretary of Defense on military pay in 1962, the Defense Study Group on Military Compensation made a dollar valuation of the commissary store benefit to the officer and to the enlisted man. This study group submitted estimates based upon both the cost to the Government and the value received by the individual of the commissary privilege. These estimates were taken into account in developing the military pay proposals which were submitted to the Congress in January 1963.

In summary, the commissary privilege has been assumed and taken into account on every occasion within the past 15 years when the responsible committees of the Congress have considered an adjustment in compensation for the Armed Forces.

It is the continuing view of the Department of Defense that the purchasing power of the dollar of military personnel, who have no choice as to the location of their assignment, should not be reduced by a difference in the cost of food in various geographical areas. The commissary store serves to assist in eliminating this differential by providing food at approximately the same price, regardless of location.

The availability of commissary stores and the implicit belief that such facilities would continue to be available during their term of service and upon retirement, have been a major factor in influencing servicemen to stay on in a career status. This is particularly true of enlisted personnel, who are the hard core of our military forces. Any curtailment in this privilege would hit hardest at the enlisted man with a family, and it is he who can least afford to lose the benefit.

Increasing numbers of servicemen are married, primarily in the lower enlisted grades. For example, in 1955, approximately 37 percent of the enlisted personnel were married. At present approximately 47 percent of the enlisted personnel are married and over 300,000 or 23.2 percent of enlisted personnel in grades E-1, 2, 3, and 4, with less than 4 years' service, are married or drawing dependents' allowances.

The commissary privilege is a substantial one for married men with families. Based on the average differential between commissary prices and supermarket prices, and the average annual family food costs, the annual saving from using the commissary for a family of four would be approximately \$400. To take away that saving, without at the same time offering servicemen an equivalent increase in their compensation, would have an adverse effect on retention rates and particularly on the retention of service people with skills that are equally sought after in civilian life.

The commissary store privilege would be difficult to match through pay increases or changes in other cash benefits. Basic pay increases have never been made proportionate to family size. An increase in allowance for commuted rations would do no good for the enlisted man who is on field rations or overseas while his family is living in the United States. Moreover, any equalizing change in pay or cash benefits would greatly exceed in cost the present cost in appropriated funds for commissary store operations and be virtually impossible to administer on an equitable basis.

The GAO report in estimating that the unrecovered costs to the Government in operating commissary stores totaled \$149 million for fiscal year 1963, based their estimate on the premise that costs of commissary stores should be at least comparable to the costs of highly competitive food stores. The report further stated that of this amount, \$65 million consisted of pay and allowance of military and civilian employees engaged in operating the stores. The Department of Defense agrees with the \$65 million personnel cost figure but disagrees with the balance of the alleged cost—\$84 million. It is unrealistic to compare all overhead costs in commissary stores to commercial food stores, since commissary stores do not provide facilities and services comparable to those available in commercial food stores. For example, line items carried in commissary stores are limited to approximately 28 percent of those carried in most supermarkets. Many services provided by supermarkets, such as check cash services, bagging, carryout and loading of groceries, are not normally provided by commissary stores. In addition, commissary store operating hours are generally restricted to less than 70 percent of normal commercial hours of operation. According to the Supermarket Institute Report for 1963, commercial supermarket sales per full-time store employee averaged \$57,000 for the year, with sales per square foot of sales space being \$180 for the same period. Like data compiled on military commissary stores, factored to equalize the sales price, reveal that annual sales per employee amount to \$96,720, with sales per square foot being \$423 for the same period.

The Department of Defense appreciates the opportunity to comment on this report.

Sincerely,

NORMAN S. PAUL.

## APPENDIX 5

### BUREAU OF THE BUDGET REPORTS ON WEATHER AND HOSPITALS

APRIL 27, 1964.

Mr. ELMER B. STAATS,  
*Deputy Director,  
Bureau of the Budget,  
Washington, D.C.*

DEAR MR. STAATS: When you testified before the Subcommittee on Defense Procurement of the Joint Economic Committee on April 21, 1964, I had intended to ask you to report on progress made with respect to improved management in basic weather research since you had advised us a year ago that there were 14 agencies involved in these activities.

I also wanted your views on the subject of integration of hospital facilities, a subject of long concern to many of us, and about which Dr. Klumpp gave excellent testimony the afternoon of the 21st of April.<sup>1</sup>

If you will respond to these questions for the record, I shall be very grateful.  
Faithfully,

PAUL H. DOUGLAS, *Chairman.*<sup>2</sup>

---

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
*Washington, D.C., June 12, 1964.*

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

DEAR MR. CHAIRMAN: In further response to your letter of April 27, I submit the following report upon the integration of medical and hospital services within the Department of Defense.

At the time of the committee's hearings on April 21, Dr. Theodore G. Klumpp, former Chairman of the Hoover Commission Task Force on Medical Services, indicated his belief that little had been accomplished in realizing the objectives of the Hoover Commission's recommendations 2 (a), (b), (c), and (d). The Bureau of the Budget and the Department of Defense have given continuing attention to the four subrecommendations of recommendation 2. We cannot agree with the judgment that they have not been largely carried into effect. There is attached to this letter, as appendix 1, a summary statement of the status of recommendations 2 (a), (b), (c), and (d), 3, and 4, all of which pertained to Defense medical matters.

We believe that the progress made has been substantial, and that continuing effort will bring about even closer coordination of the medical and hospital services within the Department of Defense. We also share with the Department of Defense the belief that under present circumstances and organizational arrangements complete consolidation of common medical services, and the personnel and facilities through which those services are conducted, would be unwieldy and would represent a serious impediment to the accomplishment of the missions assigned to the Departments of the Army, Navy, and Air Force.

In order that the committee may have an up-to-date indication of the progress which has been made in consolidation of activities, coordination of medical services, and Defense-wide agreement on basic policies, the Department of Defense has prepared a statement, entitled "Military Medical Services" which is attached to this paper as appendix 2. In connection with tab A of that paper, the committee will note that the joint utilization data relate to the fiscal year 1962.

<sup>1</sup> See pp. 248-254.

<sup>2</sup> See also Report, July 1963, pp. 8-12.

Definitive data for fiscal year 1963 have not been compiled, but the trend toward greater joint utilization has continued.

There are exceptions to the joint utilization policy, and there will probably be additional exceptions in the future. I assure the committee, however, that the Bureau of the Budget will continue to review proposed exceptions and to urge maximum joint utilization and joint new construction wherever this can be accomplished, consistent with other programs and responsibilities of the Secretary of Defense. We shall also take into account legislative policies established as a result of review of proposed authorizations by the Armed Services Committees and review of appropriation requests by the Appropriations Committees of the Congress.

If we can be of further assistance to the committee, please call upon us.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

Attachments.

#### STATUS OF HOOVER COMMISSION RECOMMENDATIONS AS OF MAY 1964

**Recommendation No. 2(a) :** That the medical and hospital services of the three armed services be modified into a much more closely coordinated pattern which will provide that military medical and hospital services within continental United States be coordinated by assisting to a single military department the responsibility under the direction of the Secretary of Defense for supervisory hospital service in a defined geographic region and that this concept be furthered wherever practicable in extra continental areas.

*Status.*—Recommendation partially accepted in that the Secretary of Defense has designated certain hospitals in the United States as regional hospitals to which designated station hospitals in the same geographical area will send patients for specialized care beyond the capabilities of the station hospital. However, the regional hospitals do not have supervisory responsibility for the station hospitals.

**Recommendation No. 2(b) :** That the medical and hospital services of the three armed services be modified into a much more closely coordinated pattern which will provide that patients of all military departments requiring highly specialized medical care be concentrated into special hospitals, each of which will serve the three departments.

*Status.*—Recommendation accepted as to the objective and largely implemented. Further implementation will take place as replacement military hospitals are constructed which will provide specialized care for patients of all three military services in a given geographical area.

**Recommendation No. 2(c) :** That the medical and hospital services of the three armed services be modified into a much more closely coordinated pattern which will provide that the Secretary of Defense be given authority to strengthen, consolidate, modify, and reallocate medical care responsibilities of the three departments in line with recommendations 2(a) and 2(b).

*Status.*—Recommendation accepted and implemented. Secretary of Defense has necessary authority to strengthen, consolidate, modify, and reallocate medical care responsibilities under existing law.

**Recommendation No. 2(d) :** That the medical and hospital services of the three armed services be modified into a much more closely coordinated pattern which will provide that each of the three military departments maintain a medical center, the components of which should be a hospital and a center for education of military medical personnel occupied with medical problems identified with the primary mission of the department.

*Status.*—Recommendation accepted and implemented. The medical centers are: Walter Reed, for the Army; Bethesda, for the Navy; and Lackland Air Force Base for the Air Force.

**Recommendation No. 3 :** That the Secretary of Defense, with the assistance of the Federal Advisory Council of Health, develop recommendations for revision of the Selective Service Act to effect maximum utilization of medical personnel.

*Status.*—Recommendation overtaken by events. Statutory requirement for special registration of medical personnel was permitted to expire in 1957. Present program for procurement and maximum professional use of medical personnel is effective.

**Recommendation No. 4 :** That the Secretary of Defense strengthen the armed services training program for interns and residents, for other physicians and dentists on active duty, and for Reserve officers not on active duty.

This program should be planned and directed from the medical center of each service, using selected military and civilian hospitals for special training.

*Status.*—Training of interns, residents, and other physicians on active duty has been stressed by each service over the years. Civilian as well as military facilities have been used. In addition, implementation of the Berry plan, under which a young doctor may choose the most convenient time to fulfill his compulsory service time, has generally resulted in better trained doctors for the services.

#### MILITARY MEDICAL SERVICES

The purpose of the National Security Act of 1947 was clearly expressed in its preamble; that it was the intent of Congress to provide a mechanism for the authoritative management and direction of the services but not to merge them.

During the past 17 years there has been an evolutionary progression of amalgamation of activities, coordination of medical services and tripartite agreement on basic policies.

The responsibility for Defense Department medical policymaking, coordination of medical programs, and elimination of duplication in operating activities was centralized at the Department of Defense level under the control of a Medical Service Division which was redesignated the Office of Medical Services in September 1949. This was reorganized in 1951 and now functions as the Office of the Deputy Assistant Secretary of Defense (Health and Medical) under the Assistant Secretary of Defense (Manpower).

During this period joint staffing, single service procurement, cross and common servicing have been tested. Joint staffing was not satisfactory; however cross and common servicing have clearly demonstrated advantages. A selected list of hospitals showing joint utilization (tab A) indicates use of one service hospital by the other two services ranging from 4.1 percent to 63.8 percent. Geographic isolation and grouping of the troops of the three services accounts for this spread: in Okinawa all three services use the Army hospital; in Guam the Navy hospital is jointly utilized and Clark Air Force hospital in the Philippines functions as the medical support activity for all services in the area.

As a result of DOD directive 6015.5, "Joint Utilization of Military Health and Medical Facilities and Services," there have been a number of hospitals reduced to dispensary status with the patient load being assumed by a nearby hospital of another service (see tab B for a selected list of 18 such examples).

DOD directive 6015.15, "Regional Hospitals" designates a list of 57 regional hospitals adequately sized and staffed, regardless of service ownership, to act as an echelon of treatment for small stations that lack capability to provide full medical and surgical coverage. These small stations require a referral hospital and hospitalization center for long-term cases. In this arrangement especially trained personnel are better utilized full time and patient care is superior (tab C).

It is significant that the overall hospitalization rate of the three services has decreased from 11.3 per thousand in 1953 to 7.0 per thousand now and the average length of patient stay in all service hospitals has been reduced from 16.13 days to 11.88 days over the same interval. This is due in part to better procedures and better administration. The savings involved with the admission of 1,151,038 patients in fiscal year 1963 is obvious. In view of the number of long-term cases and the requirement for the military man to be fit for all duty before being discharged, the number of patient-stay days in the hospital may now be at a minimum.

Some 17 unified medical agencies have been established which perform functions beneficial in saving of money, personnel and by concentration of specialists of varying categories are more efficient (tab D). A brief discussion of representative agencies of this group will serve as illustrations.

The Armed Forces Epidemiology Board and the Armed Forces Pest Control Board operate for all three services. The AFEB is under single management with the executive agent the Army. It has close cooperation with the National Institutes of Health and the National Research Council as well as other Federal and civilian agencies. The AFPCB is a joint agency with program direction originating within it and the laboratory work performed by the Department of Agriculture.

The Armed Services Medical Regulating Office is under single management, is jointly staffed and handles the evacuation and transfer of patients within the United States and those arriving from abroad.

The Military Blood Program Agency is also jointly staffed. It organizes and plans distribution of whole fresh blood, blood substitutes, and blood expanders. This unit functioned very successfully in preparation for the Cuban action.

The Armed Forces Institute of Pathology is world renowned for its contributions to medical science. It functions primarily in support of some 278 hospitals and 206 dispensaries providing diagnostic procedures and disseminating medical publications based on large volume surveys.

Some 20 percent of the total medical services operating budget is earmarked for the purchase of medical supplies. The Defense Supply Agency operating through the Defense Medical Supply Center performs purchasing, contracting, and wholesale warehousing for all three medical services. It is advised by the Defense Medical Material Board composed of the three Surgeons General or their appointed representatives.

The Office of the Deputy Assistant Secretary of Defense (Health and Medical) operates the Berry plan, and coordinates with the three services on the Selective Service requirements. The Berry plan each year offers over 1,500 interns the privilege of deferring their obligated military duty to complete their specialty training. In this and other personnel areas this office coordinates and establishes policy subject of course to approval by the Assistant Secretary of Defense for Manpower.

There are many ways that centralized policy and guidance are exercised by the ODASD (M.—H. & M.). Some of these are the medical education for national defense program, hospital construction and replacement, materiel, professional matters, plans and operation, medicare for dependents and legislative programs of medical interest.

There are 44 joint regulations, 42 triservice technical bulletins, and 2 field manuals for joint use which are in part, or wholly, devoted to medical application (tab E). A DOD directive on radiological safety is being promulgated, others are in the planning stage.

There have been many boards and committees which have considered the establishment of a single, unified medical service and it has been proposed that a single unified hospital system be established. None of the study groups have recommended a single medical service.

Those activities or agencies which deal with wholesale procurement and common items are successful in saving on personnel and funds and are more efficient. This is clearly demonstrated in the amalgamation of medical procurement agencies into a common agent. On the other hand the wholesale activity does not extend its activities to the individual user. The medical services exist to take care of the patient either in preventing illness or treating him when he is ill and are thus retailers of service.

The primary mission of each service is different and specialized. Even individualized training is mandatory in support of the technical and strategic employment of the Navy submarine, carrier, and amphibious task forces. Army land warfare and special forces, Air Force air arm, missile arm and aero-medical evacuation activities.

The amalgamation of common medical services would result in:

1. loss of contact with the forces they serve;
2. divided responsibility for the forces and for their auxiliary services;
3. the establishment of a new headquarters organization to deal with such matters as pay, transport, clothing, and accommodations, for the amalgamated services;
4. an increase in the detailed liaison work between the amalgamated services.

In summation, each service must have the authority to recruit, train, and employ personnel accordingly if it is to accomplish its mission. It follows a tested principle that every commander must have full competence over all his troops.

In a related sense a separate hospital authority within the Department of Defense would not lessen the requirements for personnel to man the hospitals, would institute a separate echelon thereby increasing liaison and communications, void the response to the Surgeon General of the respective service, evolve difficulties in staffing the field operational organizations and create problems of esprit de corps.

The present organization of the medical services provides for Department of Defense coordination and policy control and unifies the medical services where necessary or desirable. Departmental and operational control to accomplish



the mission peculiar to each service is maintained. While not perfect, we believe the present military medical structure is the most feasible, flexible, and efficient when compared to a separate medical service or as another medical echelon within the Department of Defense.

TAB A

*Fiscal year 1962 joint utilization average daily patient load—Active duty patients*

Hospital	Army	Navy	Air Force	Total	Percent utilization by other 2 services
Beaumont.....	177	2	26	205	13.6
Brooke <sup>1</sup> .....	321	3	11	335	4.1
Fitzsimons.....	322	4	88	414	22.2
Letterman.....	291	3	40	334	12.8
Madigan.....	186	2	21	209	11.0
Valley Forge.....	382		29	411	7.0
Walter Reed.....	581	1	58	640	9.2
Fort Dix.....	286	4	27	317	9.7
Fort Bragg.....	246	4	13	263	6.4
Sandia Base.....	7	2	7	16	56.4
Tripler.....	159	202	32	393	59.5
Okinawa.....	78	98	31	202	63.8
Charleston, S.C.....	3	133	20	156	14.7
Chelsea, Mass.....	48	193	41	282	31.5
Great Lakes.....	124	641	7	772	16.9
Philadelphia.....	15	533	34	582	8.4
Portsmouth, N.H.....	2	28	28	58	51.7
Portsmouth, Va.....	76	770	9	855	9.9
St. Albans.....	116	407	50	573	28.9
Guam.....		36	16	52	30.7
Wright-Patterson.....	12	2	197	211	6.6
Scott.....	13	2	156	171	8.7
Carswell.....	10	5	79	94	15.9
Elmendorf.....	24	4	45	73	38.3
Clrk.....	23	9	47	79	40.5
Wiesbaden.....	37	7	130	174	25.2

<sup>1</sup> Brooke Army Hospital because of its highly specialized capability has maintained an average daily patient load of 11 active duty Air Force even though it is located near the Lackland Air Force Hospital which is the largest Air Force hospital.

NOTE.—These are selected stations whose geographic locations and the departmental deployment of troops combine to make joint utilization an effective reality.

TAB "B"

#### EXAMPLES OF CONSTRUCTION AND OPERATIONAL PLANNING FOR JOINT UTILIZATION OR REDUCTION OF HOSPITALS

1. Langley Air Force Base, Fort Monroe, Va.: The Langley Air Force Hospital is now under construction and includes the Army requirements in that area. When it is completed the Army hospital at Fort Monroe will be reduced to a dispensary.

2. Great Lakes Naval Hospital, Fort Sheridan, Ill.: The naval hospital was constructed to absorb the inpatients from Fort Sheridan which was reduced to a dispensary operation.

3. Long Beach Naval Hospital, Fort MacArthur, Calif.: The Long Beach Naval Hospital has been authorized and funded by the Congress but not yet constructed. The original plans provided for the absorption of Army inpatients from Fort MacArthur permitting the reduction of Fort MacArthur Hospital to a dispensary. However, Congress reduced the Long Beach Hospital from 500 to 350 beds obviating this move. Army and Navy have an agreement that at such time as may be appropriate an addition to Long Beach will be programed rather than replacing the Fort MacArthur Hospital.

4. Fitzsimons Army Hospital, Lowry Air Force Base, Colo.: By an operational change, Fitzsimons Army Hospital has absorbed the inpatient load from Lowry Air Force Base permitting that hospital to be reduced to a dispensary.

5. Aberdeen Army Hospital, Bainbridge Naval Station, Md.: The new Aberdeen Army Hospital was planned and is being constructed to absorb the Navy dependent inpatient load from Bainbridge Naval Station.

6. Charleston Naval Hospital, Charleston Air Force Base, S.C. : The Charleston Naval Hospital assumed the inpatient load of the Air Force in that area. As a result a new Air Force dispensary was built in lieu of a hospital.

7. Fort Dix (Walson Army Hospital), McGuire Air Force Base, N.J. : Walson Army Hospital was planned and constructed to absorb the Air Force inpatient and specialty outpatient load from McGuire Air Force Base permitting the lesser construction of a nonspecialized dispensary for McGuire. Further enlargement of Walson Army Hospital is now in planning.

8. Okinawa Army Hospital : The Army hospital in Okinawa was planned and constructed to assume all inpatient care for Army, Navy, and Air Force in that area and has done so.

9. Tripler Army Hospital, Hawaii : Tripler Army Hospital has assumed all inpatient care for Army, Navy, and Air Force in that area.

10. William Beaumont Army Hospital, Biggs Air Force Base, Tex. : Beaumont Army Hospital has assumed the inpatient load from Biggs Air Force Base permitting reduction of the Air Force hospital to a dispensary.

11. March Air Force Base, Norton Air Force Base, Calif. : March Air Force Base Hospital now under construction was planned to absorb the Norton Air Force Base inpatients. The Norton hospital will be reduced to a dispensary when construction is completed.

12. 121st Evacuation Hospital, Army, Korea : The 121st Evacuation Hospital, Army, in conjunction with the smaller Seoul Army Hospital assumes inpatient care for all services in Korea.

13. Chelsea Naval Hospital, Hanscombe Air Force Base, Mass. : At Hanscombe Air Force Base the class A dispensary with 15 beds was reduced to a class B dispensary without beds. Chelsea Naval Hospital assumed the inpatient load.

14. Madigan Army Hospital, McChord Air Force Base, Wash. : McChord Air Force Base Hospital was reduced to a dispensary and Madigan Army Hospital assumed the inpatient load.

15. Offutt and Lincoln Air Force Bases, Nebr. : The Offutt Air Force Base Hospital now under construction was planned as a regional hospital to absorb a portion of the inpatient load from Lincoln Air Force Base with the remainder absorbed by VA hospital, Lincoln. These actions permitted elimination of new hospital construction at Lincoln and a dispensary is being built in lieu.

16. Portsmouth Naval Hospital, Pease Air Force Base, N.H. : Pease Air Force Base Hospital was reduced to a dispensary and Portsmouth Naval Hospital assumed the normal inpatient load. Specialized referrals are sent to Chelsea Naval Hospital, Mass.

17. Portsmouth Naval Hospital, Fort Story, Va. : Inpatient care for Army personnel at Fort Story and other smaller units in the area is provided by Portsmouth Naval Hospital.

18. Hill Air Force Base Hospital, Naval Supply Depot, Utah : Hill Air Force Base Hospital absorbed all medical care for the naval supply depot permitting the closing of the Navy dispensary.

---

TABLE C

LIST OF REGIONAL HOSPITALS

<i>Regional hospitals</i>	<i>Stations and military elements served</i>
Naval Hospital, Portsmouth N.H.	Pease Air Force Base, N.H.
U.S. Air Force Hospital, Griffiss Air Force Base, N.Y.	Naval Air Station, Brunswick, Maine.
Naval Hospital, Chelsea, Mass.---	Naval Supply Depot, Scotia, N.Y.
	L. G. Hanscom Field, Bedford, Mass.
	Otis Air Force Base, Mass.
	Military elements in the greater Boston area.
	Specialized referrals from military installations worldwide.
Naval Hospital, Newport, R.I.----	Military elements in Narragansett Bay area.
Naval Hospital, St. Albans, N.Y.--	U.S. Army Hospital, Fort Jay, N.Y.
	Naval Supply Depot, Bayonne, N.J.
	Other elements in the Greater New York area.
	Specialized referrals from military installations worldwide.

## LIST OF REGIONAL HOSPITALS—Continued

<i>Regional hospitals</i>	<i>Stations and military elements served</i>
Walson Army Hospital, Fort Dix, N.J.	McGuire Air Force Base, N.J.
Naval Hospital, Philadelphia, Pa.	Naval Air Station, Lakehurst, N.J.
	Naval Air Station, Johnsville, Pa.
	Dover Air Force Base, Del.
	Naval Air Station, Willow Grove, Pa.
	Other military elements in the Philadelphia area.
	Specialized referrals from military installations worldwide.
Walter Reed General Hospital, Washington, D.C.	Primarily Army elements in the greater Washington area.
	Specialized referrals from military installations worldwide.
Valley Forge General Hospital, Pennsylvania.	Specialized referrals from Army and Air Force installations worldwide.
Naval Hospital, Bethesda, Md....	Primarily naval elements in Potomac River Naval Command-Severn River Naval Command area.
	Specialized referrals from military installations worldwide.
U.S. Air Force Hospital Andrews, Andrews Air Force Base, Washington, D.C.	Primarily Air Force elements in the Greater Washington area.
	Specialized referrals from military installations worldwide.
U.S. Army Hospital, Carlisle Barracks, Pa.	Indiantown Gap, Pa.
	New Cumberland General Depot, Pa.
	Olmstead Air Force Base, Pa.
	Naval Supply Depot, Mechanicsburg, Pa.
	Letterkenny Ordnance Depot, Pa.
Naval Hospital, Portsmouth, Va....	Military elements in the Norfolk-Portsmouth tidewater, Virginia area.
	Specialized referrals from military installations worldwide.
Womack Army Hospital, Fort Bragg, N.C.	Pope Air Force Base, N.C.
Naval Hospital, Charleston, S.C....	Seymour-Johnson Air Force Base, N.C.
	Myrtle Beach Air Force Base, S.C.
	Charleston Air Force Base, S.C.
	Other military elements in the Charleston area.
Naval Hospital, Memphis, Tenn....	Naval Air Station, Memphis, Tenn.
	Memphis General Depot, Tenn.
	Mallory Air Force Station, Memphis, Tenn.
	Other military elements in the area.
	Naval Supply Corps School, Athens, Ga.
U.S. Army Hospital, Fort McPherson, Ga.	Robins Air Force Base, Ga.
Martin Army Hospital, Fort Benning, Ga.	Turner Air Force Base, Ga.
	Marine Corps Supply Center, Albany, Ga.
Naval Hospital, Jacksonville, Fla....	Moody Air Force Base, Ga.
	Naval Station, Mayport, Fla.
	Naval Air Station, Glynco, Ga.
	Naval Station, Green Cove Springs, Fla.
	Other military elements in the Jacksonville area.
U.S. Air Force Hospital, Orlando Air Force Base, Fla.	McCoy Air Force Base, Fla.
	Patrick Air Force Base, Fla.
	Naval Air Station, Sanford, Fla.
Naval Hospital, Pensacola, Fla....	Naval Air Station, Pensacola, Fla.
	Naval Air Station, Whiting Field, Fla.
	Other military elements in the Pensacola area.
U.S. Air Force Hospital Eglin, Eglin Air Force Base, Fla.	Tyndall Air Force Base, Fla.
U.S. Air Force Hospital Maxwell, Maxwell Air Force Base, Ala.	Craig Air Force Base, Ala.
	Gunter Air Force Base, Ala.

## LIST OF REGIONAL HOSPITALS—Continued

<i>Regional hospitals</i>	<i>Stations and military elements served</i>
U.S. Air Force Hospital Keesler, Keesler Air Force Base, Miss.	Brookley Air Force Base, Ala. Barksdale Air Force Base, La. England Air Force Base, La. Greenville Air Force Base, Miss. Navy Support Activity, New Orleans, La. Other military elements in the New Orleans area.
Naval Hospital, Great Lakes, Ill.	Truax Field, Wis. Naval Air Station, Glenview, Ill. Naval Air Station, Minneapolis, Minn. Other military elements in the Greater Chicago area.
U.S. Air Force Hospital, Selfridge Air Force Base, Mich.	Wurtsmith Air Force Base, Oscoda, Mich. K. I. Sawyer Air Force Base, Mich. Kincheloe Air Force Base, Mich.
U.S. Air Force Hospital Wright- Patterson, Wright-Patterson Air Force Base, Ohio.	Clinton County Air Force Base, Ohio. Bunker Hill Air Force Base, Peru, Ind. Lockbourne Air Force Base, Ohio.
U.S. Air Force Hospital, Offutt Air Force Base, Nebr.	Lincoln Air Force Base, Nebr.
U.S. Air Force Hospital, Forbes Air Force Base, Kans.	Naval Air Station, Olathe, Kans.
U.S. Air Force Hospital Scott, Scott Air Force Base, Ill.	Richards-Gebaur Air Force Base, Mo. Whiteman Air Force Base, Mo.
U.S. Air Force Hospital Sheppard, Sheppard Air Force Base, Tex.	Altus Air Force Base, Okla. Tinker Air Force Base, Okla. Amarillo Air Force Base, Tex. Reese Air Force Base, Tex. Perrin Air Force Base, Tex. Webb Air Force Base, Tex. Goodfellow Air Force Base, Tex. Dyess Air Force Base, Tex.
U.S. Air Force Hospital Carswell, Carswell Air Force Base, Tex.	James Connelly Air Force Base, Tex.
U.S. Army Hospital, Fort Hood, Tex.	
U.S. Air Force Hospital Lackland, Lackland Air Force Base, Tex.	Randolph Air Force Base, Tex. Kelly Air Force Base, Tex. Bergstrom Air Force Base, Tex. Brooks Air Force Base, Tex. Specialized referrals from military installations worldwide.
Naval Hospital, Corpus Christi, Tex.	Naval Air Station, Corpus Christi, Tex. Naval Air Station (auxiliary), Kingsville, Tex. Naval Air Station (auxiliary), Beeville, Tex. Naval Air Station (auxiliary), Port Isabel, Tex. Other military elements in the area.
William Beaumont General Hos- pital, Biggs Air Force Base, Tex.	Holloman Air Force Base, N. Mex. Biggs Air Force Base, Tex. Walker Air Force Base, N. Mex.
Brooke General Hospital, San An- tonio, Tex.	Primarily Army elements in the central Texas area.
U.S. Air Force Hospital, Minot Air Force Base, N. Dak.	Army specialized treatment center. Glasgow Air Force Base, Mont. Grand Forks Air Force Base, N. Dak. Duluth Municipal Airport, Duluth, Minn. Malmstrom Air Force Base, Mont.
Fitzsimons General Hospital, Den- ver, Colo.	Lowry Air Force Base, Colo. Specialty treatment center primarily for Army elements worldwide.
U.S. Air Force Hospital, U.S. Air Force Academy, Colo.	Ent Air Force Base, Colo.
U.S. Air Force Hospital, Fairchild Air Force Base, Wash.	Larson Air Force Base, Wash.
U.S. Air Force Hospital, Hill Air Force Base, Utah.	Utah General Depot, Ogden, Utah. Naval Supply Depot, Clearfield, Utah. Tooele Ordnance Depot, Utah.

## LIST OF REGIONAL HOSPITALS—Continued

*Regional hospitals**Stations and military elements served*

U.S. Air Force Hospital, Luke Air Force Base, Ariz.	Williams Air Force Base, Ariz.
U.S. Air Force Hospital, Nellis Air Force Base, Nev.	Naval Air Facility, Litchfield Park, Ariz.
Madigan General Hospital, Washington.	Indian Springs Air Force Base, Nev.
Naval Hospital, Bremerton, Wash.	Camp Desert Rock, Nev.
	Fort Lewis, Wash.
	McChord Air Force Base, Wash.
	Bangor Ammunition Depot.
	Keyport Torpedo Station.
	Naval Shipyard, Puget Sound.
	Jim Creek Radio Station.
	Naval Air Station, Whidbey Island.
	Military elements in western Puget Sound area.
U.S. Air Force Hospital Travis, Travis Air Force Base, Calif.	Beale Air Force Base, Calif.
U.S. Air Force Hospital, Mather Air Force Base, Calif.	Stead Air Force Base, Nev.
Letterman General Hospital, California.	McClellan Air Force Base, Calif.
	Hamilton Air Force Base, Calif.
	Primarily 6th Army elements in the San Francisco Bay area.
	Specialized referrals from military installations worldwide.
Naval Hospital, Oakland, Calif.---	Naval Ammunition Depot, Hawthorne, Nev.
	Naval Air Station, Lemoore, Calif.
	Naval Air Station, Fallon, Nev.
	Primarily naval elements in the San Francisco Bay area.
	Specialized referrals from military installations worldwide.
U.S. Army Hospital, Fort Ord, Calif.	Naval Air Station, Monterey, Calif.
	Post Graduate and Line School, Monterey, Calif.
	Military elements in Monterey Peninsula area.
U.S. Air Force Hospital, George Force Base, Calif.	Marine Corps Supply Depot, Barstow, Calif.
	Naval Ordnance Test Station, China Lake, Inyokern, Calif.
U.S. Air Force Hospital, March Air Force Base, Calif.	Norton Air Force Base, Calif.
	Marine Corps Base, Twentynine Palms, Calif.
	Referrals from George Air Force Base and other Air Force installations in southern California, Arizona, and southern Nevada.
Naval Hospital, Camp Pendleton, Calif.	Marine Corps Air Station, El Toro, Calif.
	Military elements in Santa Ana-Oceanside area.
Naval Hospital, San Diego, Calif.--	Military elements in greater San Diego area.
	Specialized referrals from military installations worldwide.
Station Hospital, Port Hueneme, Calif.	Naval Air Station, Point Mugu, Calif.
	U.S. Naval Missile Test Center, Point Mugu, Calif.
U.S. Air Force Hospital, Vandenberg Air Force Base, Calif.	Oxnard Air Force Base, Calif.
	Pacific Missile Range, Point Arguello, Calif.

NOTE.—The above list of hospitals is not all inclusive of the total military hospital system. Many hospitals not listed are in isolated areas that do not lend themselves to regionalization and they will continue medical coverage provided in their assigned mission.

The above listing is not restrictive and does not prohibit medical care on a joint utilization basis for any cases, regardless of service, that may be generated locally or transferred in by proper authority.

## TAB D

## UNIFIED MEDICAL AGENCIES AND ACTIVITIES

## CIVILIAN EMPLOYEE HEALTH SERVICE

Department of Army designated to provide authorized health service for civilian employees of DOD in the Washington, D.C., area.

## ARMED FORCES INSTITUTE OF PATHOLOGY

Established as a joint agency of the three military departments subject to the authority of the Secretary of Defense and under management control of Department of the Army. There are 35 officers assigned.

## CHARTER FOR THE ARMED SERVICES MEDICAL REGULATING OFFICE

Establishes ASMRO as joint agency of Army, Navy, and Air Force to regulate flow of patients of the Armed Forces and use of bed credits within Conus. Army is executive agent and is responsible for administration.

## ARMED FORCES EPIDEMIOLOGICAL BOARD

Establishes as joint agency of the three military departments under management control of Army subject to authority of Secretary of Defense. Purpose is to provide scientific and research data on problems of preventive medicine.

## JOINT COMMITTEE ON AVIATION PATHOLOGY

Establishes a Joint Committee on Aviation Pathology under AFIP. Consists of organization within DOD, and the military services of the United Kingdom and Canada. Acts as a focal point for dissemination of information on pathology as applied to aviation and flight safety.

## THE ARMED FORCES PEST CONTROL BOARD

Established to serve as a joint activity of the DOD under management control of Army. Mission is to function as coordinating and advisory body and to provide liaison with other agencies.

## ARMED FORCES RADIOBIOLOGY RESEARCH INSTITUTE

Established within DOD as a joint agency of the three military departments under authority of Secretary of Defense and under management of Secretary of the Navy. Chief, DASA, sponsors the development and establishment of the Institute and coordinates the research program. Mission is to conduct research essential to U.S. military services, national welfare, and well-being of mankind.

## DEFENSE MEDICAL MATERIEL BOARD

Established as joint activity subject to authority of Secretary of Defense and under professional policy guidance of Assistant Secretary of Defense (Manpower). The Secretary of Navy provides administrative support of internal administration and operation of the Board. It shall provide coordination, advice, and assistance on professional-technical aspects of medical materiel and in the field of military medical supply.

## DEFENSE MEDICAL SUPPLY CENTER

Operating under the aegis of the Defense Supply Agency, the DMSC performs unified medical materiel purchasing for the three military medical services.

## JOINT UTILIZATION OF MILITARY HEALTH AND MEDICAL FACILITIES AND SERVICES

Established DOD policy requires planning for and the practice of joint utilization of military health and medical facilities and services to attain the most efficient and economical operation of the three military medical departments consistent with the attainment of their primary mission. This policy applies to per-

sonnel, facilities, construction, patient regulating, patient beds and staffing, dental, veterinary, education and training, preventive medicine, and laboratory service.

#### STAFFING OF MILITARY MEDICAL TREATMENT FACILITIES

Establishes the principle that joint staffing is unnecessary except in emergencies. This does not preclude joint use of specially trained personnel irrespective of service affiliation.

#### REGIONAL HOSPITALS

Designates regional hospitals, regardless of service, to provide definitive support for small stations that lack capability of full medical and surgical coverage. Lists Army, Navy, and Air Force regional hospitals and the bases they support.

#### UTILIZATION OF BEDS IN VETERANS' ADMINISTRATION HOSPITALS FOR MILITARY PATIENTS

Provides that certain types of patients of the military services be transferred to VA hospitals for treatment.

#### DEPARTMENT OF DEFENSE BLOOD PROGRAM

Established as a joint agency of the three military departments under authority of Secretary of Defense with Secretary of Army designated the responsible agency. Provided to cover the collection, processing, and distribution of whole blood and its fractions, under all degrees of emergency conditions.

#### RECRUITMENT OF PROFESSIONAL CATEGORIES OF MEDICAL PERSONNEL

Under the Berry plan and the Fisk addendum to the Berry plan, the major physician procurement activities of the Defense Department have been unified into an integrated operation conducted by the Office of Assistant Secretary of Defense (Health and Medical). This action has served to eliminate competitive procurement of young physicians completing internships and residency training to serve as reservists for 2-year duty tours. Similar programs under Defense auspices for procurement of dentists and veterinarians are also conducted by the Deputy Assistant Secretary of Defense (Health and Medical).

#### MEDICAL FACILITIES CONSTRUCTION PROGRAMS

A critical review of all medical construction programs originated by the three military departments is conducted by the Deputy Assistant Secretary of Defense (Installations and Logistics) to insure that all medical construction projects have been developed under uniform criteria and do not duplicate existing or planned construction by another service.

#### INTRAGOVERNMENTAL PROCUREMENT ADVISORY COUNCIL ON DRUGS (IPAD)

This Council is composed of representatives from the Armed Forces and the Federal agencies and offices engaged in the procurement, regulation, and use of drugs and provides a forum for the exchange of information relative to quality control, manufacturing standards, and the exchange and dissemination of adverse drug reactions, both among the Federal agencies and with the American Medical Association.

---

#### TAB E

#### LIST OF JOINT PUBLICATIONS HAVING MEDICAL IMPLICATIONS

##### REGULATIONS

1. AR 1-35/SECNAV INST 4000.20/AFR 400-27, "Basic Policies and Principles for Interservice Support," August 2, 1960.
2. AR 15-97/BUMEDINST 6510.6/AFR 160-127, "Joint Committee on Aviation Pathology," September 3, 1957.
3. AR 31-1/NAVSANDA PUB 301/AFR 145-27/NAVMC 1121-A, "Single Manager Subsistence Supply—General Policies, Relationships, and Responsibilities," December 11, 1959.

4. AR 31-7NAVSANDA PUB 307/AFR 145-33/NAVMC 1121-G, "Single Manager Subsistence Supply—Procurement Inspection," April 23, 1957.
5. AR 31-14/NAVSANDA PUB 314/AFR 145-40/NAVMC 1121-N, Single Manager Subsistence Supply—Care of Supplies in Storage—Nonperishable Subsistence," April 4, 1957.
6. AR 35-274/SECNAVINST 7020.4A/AFR 172-3, "Host-Tenant Relationships," June 10, 1960.
7. AR 40-12/Navy General Order No. 20/AFR 161-4, "Medical and Agricultural Foreign and Domestic Quarantine Regulations for Vessels, Aircraft, and Other Transport of the Armed Forces," June 28, 1962.
8. AR 40-29/BUMERINST 6510.1B/AFR 160-38, "Armed Forces Institute of Pathology," December 29, 1954.
9. AR 40-31/BUMEDINST 6510.2B/AFR 160-55. "Central Facilities Provided for Department of Defense by the Armed Forces Institute of Pathology and by Histopathology Centers," January 17, 1963.
10. AR 40-121/SECNAVINST 6320.8A/AFR 160-41/PHS GEN CIR NO. 6, "Dependents' Medical Care," December 16, 1959.
11. AR 40-122/SECNAVINST 6320.9A/AFR 170-18/PHS DIV FIN CIR NO. 41, "Fiscal Policies—Dependents' Medical Care," October 31, 1961.
12. AR 40-125/SECNAVINST 6322.3/AFR 168-3, "Civilian Medical and Dental Care for Dependents of Foreign Military Personnel of the NATO Nations in the United States," May 21, 1963.
13. AR 40-350/BUMEDINST 6320.1B/AFR 160-107/PHS GEN CIR NO. 14, "Medical Regulating to and Within the Continental United States," October 12, 1959.
14. AR 40-431/BUMEDINST 6150.18/AFR 160-31, "Record of Exposure to Ionizing Radiation," September 12, 1956.
15. AR 40-441/BUMEDINST 6200.1A/AFR 160-62, "Joint Utilization of Certain Armed Forces Medical Laboratory Facilities," January 23, 1963.
16. SR 40-530-7/BUMEDINST 4600.2/AFR 160-113, "Patient's Identity Tag, Patient's Baggage Tag, Patient Evacuation Manifest, and Patient's Unaccompanied Baggage," April 30, 1953.
17. AR 40-535/OPNAVINST 4630.9A/AFR 160-52, "Aeromedical Evacuation," October 28, 1955.
18. AR 40-538/BUMED CIR LTR 50-92/AFR 67-40, "Property Exchange and Accountability in Evacuation of Patients," August 7, 1950.
19. AR 40-562/BUMEDINST 6230.1D/AFR 161-13, "Immunization Requirements and Procedures," December 10, 1963.
20. AR 40-566/AFR 160-131, "Cardiovascular Disease Followup Study," August 22, 1961.
21. AR 40-570/AFR 160-49, "Food and Beverage Vending," June 17, 1958.
22. AR 40-574/SECNAVINST 6250.5/AFR 91-22, "Aerial Dispersal of Pesticides," September 10, 1962.
23. AR 40-579/AFR 161-3, "Liaison with Public Health Service," March 12, 1962.
24. AR 40-655/AFR 160-65A, "Prevention and Control of Communicable Diseases of Animals," December 1, 1961.
25. AR 40-657/NAVSANDA PUB 395/AFR 160-48/NAVMC 2573, "Veterinary Food Inspection," February 8, 1961.
26. AR 40-920/AFR 160-42, "Veterinary Laboratories," October 4, 1950.
27. SR 40-920-1/AFR 160-43, "Veterinary Laboratory Service," October 4, 1950.
28. SR 40-1025-1/NAVVED P-1294/AFR 160-13, "Joint Armed Forces Statistical Classification and Basic Diagnostic Nomenclature of Diseases and Injuries With a List of Surgical Operations," April 1, 1949.
29. AR 55-107/CNO Ltr Ser 1414P40/AFR 75-48, "Policy Governing Transportation of Passengers Aboard Vessels of Military Sea Transportation Service," September 20, 1950.
30. AR 55-118/OPNAVINST 4600.3/AFR 75-92, "Policy Governing the Transportation of Infirm Dependents by Sea or Air," March 24, 1954.
31. AR 55-355/OPNAVINST 4600.8/AFM 75-2/NAVMC 1175, "Military Traffic Management Regulations," March 1, 1958.
32. AR 58-1/OPNAV P 44-2/AFM 77-1/MCO P11240.46, "Joint Procedures for Management of Administrative Use Motor Vehicles," January 15, 1962.
33. AR 59-8/OPNAVINST 4630.18A/AFR 76-38/MCO 4630.6, "Air Transportation Space and Capability," September 13, 1962.
34. AR 59-12/OPNAVINST 4630.12B/MCO 4630.7/AFR 76-15, "Movement of Traffic by the Single Manager Operating Agency for Airlift Service (MATS)," September 6, 1962.



35. AR 59-15/OPNAVINST 4630.21/AFR 76-12, "Transportation of Non-Military Passengers and Materiel on Military Attaché Aircraft," November 5, 1963.
36. AR 59-25/OPNAVINST 4630.15A/AFR 76-27, "Air Transportation Services Provided in Support of MAP, NATO, SEATO, and CENTO," September 7, 1962.
37. AR 59-105/OPNAVINST 4630.13B/AFR 76-30/NAVMC 1169, Aerial Ports of Embarkation," July 12, 1961.
38. AR 96-20/OPNAVINST 4630.10/AFR 76-6, "Responsibilities and Policies for Movement of Traffic on Other Than Military Air Transport Service Scheduled Aircraft," June 11, 1953.
39. AR 115-10/AFR 105-3, "Meteorological Support for the U.S. Army," March 23, 1962.
40. AR 550-70/OPNAVINST 4000.23A/AFR 400-7, "Service Support Responsibilities in Spain," December 22, 1955.
41. AR 600-240/NAVPERS 15858/AFR 34-12/Mar Cor P-7, "Marriage in Oversea Commands," October 14, 1953.
42. AR 700-22/AFR 400-31, "Horses, Mules, and Working Dogs," January 27, 1961.
43. AR 700-32/OPNAVINST 4000.40/AFR 400-15, "Logistic Support of United States Nongovernmental Nonmilitary Agencies and Individuals in Oversea Military Commands," August 17, 1956.
44. AR 905-10/AFR 211-20, "United States Soldiers' Home," August 3, 1962.

## TECHNICAL BULLETINS

1. TB MED 9/NAVMED P-5052-9/AFP 160-17-1, "Antibiotic Therapy," October 1, 1958.
2. TB MED 15/NAVMED P-5082/AFM 160-24, "Department of Defense Disease and Injury Codes," July 1, 1963.
3. TB MED 31/NAVMED P-5052-21/AFP 161-1-6, "Scrub Typhus (mite-Borne Tsutsugamushi Disease)," June 28, 1962.
4. TB MED 62/AFM 160-10, "Medical X-Ray Protection," May 7, 1957.
5. TB MED 81/AFP 160-5-10C, "Cold Injury," February 4, 1960.
6. TB MED 82/NAVMED P-5052-22/AFP 161-1-4, "Sandfly (Pappataci, Phlebotomus) Fever," December 29, 1961.
7. TB MED 89/AFP 160-5-13, "Pilonidal Disease," September 16, 1955.
8. TB MED 97/AFP 160-5-9, "Rheumatic Fever," November 5, 1954.
9. TB MED 114/NAVMED P-5052-15A/AFP 161-1-9, "Immunization," September 5, 1962.
10. TB MED 119/AFP 160-5-12, "Shigellosis (Bacillary Dysentery)," March 29, 1955.
11. TB MED 124/NAVMED P-5052-18, "Plague," May 13, 1960.
12. TB MED 138/NAVMED P-5052-23/AFP 161-1-8, "Cholera," June 28, 1962.
13. TB MED 142/NAVMED P-5052-1A/AFP 161-1-5, "Filarial Infections of Man," March 2, 1962.
14. TB MED 159/NAVMED P-5052-7/AFP 160-5-19, "Amebiasis," May 21, 1958.
15. TB MED 162/AFP 160-6-9, "Care of Patients with Injuries of the Spinal Cord," June 1, 1955.
16. TB MED 164/NAVMED P-5052-10, "Malaria (Clinical Features, Treatment, Control, and Prevention)," June 30, 1959.
17. TB MED 167/NAVMED P-5052-6A/AFP 161-1-7, "Schistosomiasis," June 20, 1962.
18. TB MED 175/NAVMED P-5052-5/AFP 160-4-1, "The Etiology, Prevention, Diagnosis and Treatment of Adverse Effects of Heat," August 7, 1957.
19. TB MED 193/NAVMED P-5052-2A/AFP 160-5-15. "Poliomyelitis," October 24, 1960.
20. TB MED 204/AFM 160-43, "Complications of Blood Transfusion," August 11, 1950.
21. TB MED 208/AFP 160-5-6, "Viral Hepatitis," March 13, 1961.
22. TB MED 212/NAVMED P-5-52-14/AFP 160-5-22, "Viral Infections of the Central Nervous System," June 30, 1959.
23. TB MED 218/NAVMED P-5052-3/AFP 160-5-17, "Epidemic (Louse-Borne) Typhus," December 6, 1956.
24. TB MD 223/AFP 161-1-1, "Respiratory Protective Devices," August 20, 1962.
25. TB MED 229/AFM 160-4, "Sanitary Control of Water Supplies for Fixed Installations," December 17, 1957.

26. TB MED 230/NAVMED P-5052-11/AFP 160-5-5, "Treatment and Management of Venereal Disease," December 11, 1959.
27. TB MED 231/NAVMED P-5052-20/AFP 161-1-3, "Prevention of Spread of Tuberculosis in Armed Forces Hospitals," August 31, 1961.
28. TB MED 236/NAVMED P-5052-13/AFP 160-5-20, "The Management of Pulmonary Tuberculosis," September 3, 1958.
29. TB MED 242/NAVMED P-5035/AFP 160-6-3, "Health Hazards From Propellant Fuels and Oxidizers," June 21, 1954.
30. TB MED 243/NAVMED P-5036/AFP 160-5-8, "Interviewer's Aid for VD Contact Investigation," June 1, 1954.
31. TB MED 246/NAVMED P-5046/AFP 160-2-4, "Medical Management of Casualties in Nuclear Warfare," December 4, 1963.
32. TB MED 252/AFP 160-5-16, "Acute Renal Failure," August 24, 1956.
33. TB MED 254/AFP 160-6-6, "Permissible Dose From External Sources of Ionizing Radiation," May 6, 1957.
34. TB MED 255/AFP 160-12-3, "Care and Management of Laboratory Animals," May 16, 1958.
35. TB MED 256/AFP 160-6-12, "Hazards to Health From Ozone," August 20, 1957.
36. TB MED 257/NAVMED P-5052-8/AFP 160-5-4, "Coccidioidomycosis," July 25, 1958.
37. TB MED 260/NAVMED P-5052-16/AFP 160-5-11, "Prevention of Hospital Infection: Staphylococcus," June 10, 1960.
38. TB MED 261/NAVMED P-5052-19, "Tularemia," September 8, 1960.
39. TB MED 262/NAVMED P-5067/AFR 160-44, "Veterinary Food Inspection Procedure for the Inspection of Milk and Milk Products in Bulk Dispenser Cans," September 16, 1960.
40. TB MED 263/AFR 160-50, "Identification of Inspected Subsistence," October 26, 1960.
41. TB MED 264/NAV SANDA PUBLICATION 403/AFM 160-38/MCO 10110.15, "Veterinary Food Inspection Procedure for Sampling Ground Meat," June 16, 1961.
42. TB MED 265/AFP 161-2-1, "Threshold Limit Value for Toxic Chemicals," February 8, 1962.

#### TECHNICAL MANUALS

1. TM 5-632/NAVDOKS TP-Pu-2/AFM, 85-7, "Insect and Rodent Control," February 1, 1956.
2. TM 8-227/AFM 160-14, "Methods for Medical Laboratory Technicians," August 3, 1951.
3. TM 8-240/AFM 106-42, "Psychiatry in Military Law," May 22, 1953.
4. TM 8-242/AFM 160-45, "Military Clinical Psychology," July 31, 1951.
5. TM 8-255/NAVMED P-5064/AFM 160-16, "Operational Procedures for Military Blood Donor Centers," October 1959.
6. TM 8-256/NAVMED P-5079/AFM 168-3, "Armed Services Whole Blood Processing Laboratories Manual," July 1962.
7. TM 8-285/NAVMED P-5041/AFM 160-12, "Treatment of Chemical Warfare Casualties," December 12, 1956.
8. TM 8-292/AFM 160-16, "Physical Reconditioning," May 8, 1952.
9. TM 8-300/NAVMED P-5065/AFM 160-19, "Autopsy Manual," July 1, 1960.
10. TM 8-340/NAVMED P-5083/AFM 160-28/VA Pamphlet 10-72, "Methods of Preparing Pathologic Specimens for Storage and Shipment," September 6, 1963.
11. TM 8-500/AFM 160-8, "Hospital Diets," December 9, 1957.
12. TM 8-525/NAVMED P-1333/AFM 146-7, "Sanitary Food Service," June 1953.
13. TM 8-640/AFP 160-14-1, "Joint Motion Measurement," March 30, 1956.

#### FIELD MANUALS

1. FM 21-10/AFM 160-46, "Military Sanitation," May 6, 1957.
2. FM 31-8/NAVMED P-5047/AFM 160-27, "Medical Service in Joint Oversea Operations," January 9, 1956.

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., June 13, 1964.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee, Congress of the United States,*  
*Washington, D.C.*

DEAR MR. CHAIRMAN: In your letter of April 27, 1964, you inquired as to progress in the management of basic meteorological research during the past year. There has been no reduction in the number of agencies supporting research on weather related problems affecting the accomplishment of their respective missions. In our view, any advantages to be gained from consolidation of such research are outweighed by the disadvantages attendant upon separating research from user requirements.

However, efficient management of the Government's program of meteorological research requires effective overall coordination of the related activities of the agencies. Significant steps have been taken during the year to improve the Government's organization for planning meteorological research, with certain focal responsibilities being assigned the Department of Commerce.

The Bureau of the Budget has issued a circular, copy attached, that prescribes policy and procedural guidelines for planning and conducting Federal meteorological services, including applied research and development to improve these services. The circular defines basic meteorological services and assigns responsibility to the Department of Commerce for arranging for such services. The circular also defines specialized meteorological services and makes user agencies responsible for arranging for such services, after obtaining Commerce's views as to whether basic services can meet their operating requirements. The Department of Commerce is developing an overall plan for the integration of basic and specialized services, which will be used by the Bureau of the Budget in reviewing agencies' budget requests.

While the division of responsibilities between the Department of Commerce and the National Aeronautics and Space Administration for the development and operation of meteorological satellites is not covered by the circular, the two agencies have recently reached a new agreement as to their respective responsibilities. The agreement clarifies previously existing arrangements under which NASA develops new satellite systems and Commerce procures and operates the systems when they become operational. Meteorological satellite operations and supporting research and development will be included in the overall Federal plan.

In addition to actions taken to improve the coordination of research and development in support of meteorological services, steps have been taken to improve the planning and coordination of research directed toward more general understanding of atmospheric processes. The Interdepartmental Committee for Atmospheric Sciences, a constituent of the Federal Council for Science and Technology, has been strengthened by elevating the level of agency representation. This Committee considers the quality and direction of the Government's basic research activities in the atmospheric sciences, including meteorology, and the relationship of applied research and development activities to scientific advancement, as distinct from agency missions.

The Committee has established eight task forces that are studying special areas requiring attention in planning Federal activities in the atmospheric sciences. Agencies have been designated to take the leadership in each of the areas being studied, working with other agencies concerned. The purpose of these studies is to identify problems and recommend appropriate corrective actions.

The chairmanship of the Interdepartmental Committee for Atmospheric Sciences has been shifted from the National Science Foundation to the Department of Commerce. The Assistant Secretary of Commerce for Science and Technology, who is the Chairman, is also charged with facilitating coordination of applied research and development in support of meteorological services, pursuant to the circular described above. Therefore, this key official is now able to provide leadership in the coordination of all meteorological research activities.

We will be glad to furnish further information to you about coordination under the above arrangements as activities develop, including copies of any reports of general interest.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

Enclosure.

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
*Washington, D.C., November 13, 1963.*

Circular No. A-62.

To: The heads of executive departments and establishments.

Subject: Policies and procedures for the coordination of Federal meteorological services.

1. PURPOSE AND COVERAGE

This circular prescribes policy guidelines and procedures for planning and conducting Federal meteorological services and applied research and development to improve such services.

The guidelines are designed to improve organizational arrangements and procedures for the planning and conduct of Federal meteorological programs with the objective of meeting essential user requirements most effectively and economically. The guidelines (a) reaffirm the central role of the Department of Commerce with respect to basic meteorological services; (b) clarify the respective responsibilities of the Department of Commerce and the user agencies for basic and specialized meteorological services; (c) establish procedures to facilitate coordination and the timely resolution of outstanding issues; (d) provide for evaluating user requirements within the context of a balanced and integrated Federal plan; and (e) fix responsibility for continuing and systematic review of meteorological services and supporting research.

Policies and procedures with respect to basic research in meteorology are not within the purview of this circular because such research is only indirectly related to improvement of weather services and often has other objectives. The Federal Council for Science and Technology will continue to have cognizance over basic research in the atmospheric sciences, which includes meteorology. This also includes the supporting applied meteorological research, as defined herein, in terms of its dependence upon and contribution to the atmospheric sciences.

2. STATEMENT OF METEOROLOGICAL SERVICES AND REQUIREMENTS

(a) "Basic meteorological services" include all activities, that are possible within the given state of meteorological science, required to produce or complete a description in time and space of the atmosphere. In general the products of this process are meteorological in nature and are not necessarily useful in such form for the operational needs of users. These services also include those activities required to derive from raw data the products needed by the general public in their normal everyday activities and for the protection of their lives and property.

The general functions involved in providing basic meteorological services include:

(1) Measurement of the meteorological characteristics of the atmosphere, made with sufficient density and frequency to meet the needs of the general public and the common needs of all users.

(2) Collection of these measurements for processing.

(3) Analyses and prognoses of meteorological variables, including estimates of their probable error distribution, and interpretation of the analyses and prognoses for meeting the needs of the general public.

(4) Distribution of these meteorological analyses and prognoses to outlets for subsequent interpretation for the operational needs of all users, and the distribution and display of operational products to meet the needs of the general public.

(b) "Specialized meteorological services" include those activities, derived generally from the output of the basic meteorological services, which produce those products needed to serve the operational needs of particular user groups. These user groups include, among others: aviation, agriculture, business, commerce, and industry.

The general functions involved in providing these services include:

(1) Establishment of parameters needed to serve solely a particular operational purpose.

(2) Collection of data from specialized measurements which conform with the established parameters.

(3) Analysis of the data obtained from specialized measurements.

(4) Interpretation of the analyzed data and the making of prognoses to meet the operational needs of users.

(5) Distribution and display of these specialized products to meet the needs of individual users or groups.

(c) "Supporting research" includes those applied research and development activities whose immediate objective is the improvement of the basic and specialized meteorological services as defined herein.

(d) "User agency" is an agency whose mission requires meteorological services either for its internal operations or at part of its direct services to a clientele group. "Mission requirements" include those requirements directly related to the primary mission of the agency. When such mission involves direct service to a clientele group requiring the provision of meteorological services it is included within the terms of this definition. Also, when the agency has no such clientele relationships but its internal operations require the provision of meteorological services, its mission is included within the terms of this definition.

(e) "Common requirements of other agencies" include the needs for basic meteorological services necessary to support their specialized meteorological services. Such requirements also include those needs for specialized meteorological services common to two or more agencies.

### 3. COORDINATION OF METEOROLOGICAL SERVICES

(a) The Department of Commerce, with the advice and assistance of other agencies concerned; will establish procedures designed to facilitate a systematic and continuing review of basic and specialized meteorological requirements, services and closely related supporting research. The Department will undertake such reviews with the objectives of (1) establishing, and revising as appropriate, needed basic services, and (2) advising other agencies on the need for and organization of specialized services. The objectives of these continuing reviews are to assure a timely identification of need for new or revised services and to develop those services, either basic or specialized, that most efficiently meet the need.

(b) The Department of Commerce, to the maximum extent practicable and permitted by law, will provide those basic meteorological services and supporting research needed to meet the requirements of the general public or the common requirements of other agencies. The Department of Commerce will arrange for the conduct of such services by the Department, by other agencies, or by non-Federal organizations, depending upon the most effective and economical arrangements.

(c) User agencies will arrange for specialized meteorological services and supporting research when their mission requirements cannot be effectively accommodated through the basic services and supporting research. Before supporting specialized meteorological services and research, the user agency should obtain the views of the Department of Commerce as to whether its requirements can be met satisfactorily through the basic meteorological services and supporting research, including appropriate adjustments therein. The Department of Commerce will, to the extent consistent with effective and economical use of resources, conduct the specialized services that support the mission requirements of user agencies.

(d) The above provisions will not apply to (1) the division of responsibilities between the Department of Commerce and the National Aeronautics and Space Administration for development of meteorological satellites; and (2) meteorological activities involving special military security considerations. Arrangements with respect to the foregoing activities will be set forth in separate determinations.

### 4. DEVELOPMENT OF A FEDERAL PLAN

(a) The Department of Commerce will prepare and keep current a plan, and obtain periodic information on its implementation, for the efficient utilization of meteorological services and supporting research. The purpose of such planning is to achieve the maximum integration of current and future services and research consistent with the effective and economical accomplishment of mission requirements. The plan should include (1) all civilian meteorological services and supporting research, and (2) those meteorological services (basic and specialized) and supporting research programs of the military which are significantly affected by, or which affect, civilian meteorological services and supporting research. The plan will be directed toward relating such meteorological services and research to requirements, as established by the user agen-

cies. It will also serve to develop the coordinating arrangements needed for the optimal use of the basic and related specialized meteorological services and supporting research in an efficient overall system.

(b) Planning should be directed toward the establishment of both long-range and intermediate agency objectives and the development of programs related to both sets of objectives. The Department of Commerce should assure that the plan, relating proposed programs to fiscal year and longer range objectives, is available for the annual preview of the various agencies' budgets for fiscal year 1966 and thereafter. The plan should clearly identify planning assumptions, any unresolved interagency issues, and the views of the agencies concerned with respect thereto.

(c) In preparing and revising the plan, the Department of Commerce will obtain the advice and assistance of the principal agencies providing or utilizing the meteorological services. To this end the Department should establish appropriate arrangements for obtaining continuing advice from the principal agencies concerned. The Department should exercise leadership in assuring that differences of opinion are resolved expeditiously. The division of responsibilities among agencies for provision of meteorological services and supporting research will, insofar as practicable and permitted by law, conform with the guidelines set forth under section 3 above.

#### 5. OVERALL REVIEW PROCEDURES

When major differences among agencies cannot be resolved through consultation, the head of any agency concerned may refer the matter to the appropriate agency within the Executive Office of the President for consideration. The Presidential staff agencies will keep each other currently informed of meteorological issues and will cooperate in achieving their timely resolution.

KERMIT GORDON, *Director.*

