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ECONOMIC IMPACT OF FEDERAL
PROCUREMENT—1966

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OF THE

SUBCOMMITTEE ON FEDERAL PROCUREMENT
AND REGULATION

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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LETTERS OF TRANSMITTAL

MAY 27, 1966.

To the Members of the Joint Economic Committee:

Transmitted herewith for your consideration and use, and for the use of other Members of Congress, the business community, and others, is a report entitled, "Economic Impact of Federal Procurement—1966" by the Subcommittee on Federal Procurement and Regulation.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

MAY 25, 1966.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Attached is a progress report entitled, "Economic Impact of Federal Procurement—1966" approved unanimously by the Subcommittee on Federal Procurement and Regulation.

Federal property activities, including procurement, aggregate at least 10 percent of the value of the gross national product and exert a great force on the national economy. It is, therefore, most important that they are conducted with prudence and efficiency. So the subcommittee has concentrated its efforts the past few years on the elimination of waste which historically has been so widespread thus robbing both essential military and civilian programs while needlessly augmenting the budget and the national debt. Our hearings and this report as in former years do not deal with strictly military subjects such as strength and organization of forces, major weapons systems, theater operations, etc.

We are giving great emphasis in this report to the need for better management and utilization of the billions of dollars worth of supplies in Government warehouses. Many of these items are perishable in varying degrees. This is a good time to keep out of the market and to "use these items up, wear them out and make them do".

An objective appraisal will reveal that giant strides have been made in the past few years in developing an economical and efficient Federal supply system as contemplated by the Congress in 1949.¹

I also point out that for nearly two decades congressional committees, individual members, study groups, the two Hoover Commissions, and many others have advocated that the Secretary of Defense take strong action to bring about efficient management in the sprawling defense complex, particularly in the common supply and services areas, secure more competitive bidding as intended by law, utilize more fully the billions of dollars worth of deteriorating inventories

¹ Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 471, sec. 2.

and release unneeded real properties valued at billions of dollars thus building rather than eroding the tax base.

On December 30, 1960, I wrote to Secretary-Designate McNamara urging that a number of actions be taken along these lines.² He has gone to work with courage, unparalleled ability and tenacity, and has made tremendous progress in improving both the organization and management of the Defense Establishment. In so doing, cost reductions of several billions of dollars annually have been achieved by adopting, among others, many of the suggestions of this subcommittee.³ In the process of determined action, toes have been trod upon, oxen gored, and hostility encountered which is inevitable.

Errors may have been committed and certainly much remains to be done in carving more fat and waste as this report reveals but I urge everyone to view our suggestions and recommendations against the background of the scope of the job and the unprecedented accomplishments. We must not undermine either the greatly improved structure or its chief architect nor on the other hand relax our efforts toward further progress.

The subcommittee is indebted to all the witnesses and contributors to our hearings and especially to Comptroller General Staats and his staff for three excellent reports prepared at our request.⁴ The results from these alone will improve the supply processes and save millions of dollars.

Faithfully yours,

PAUL H. DOUGLAS,

Chairman, Subcommittee on Federal Procurement and Regulation.

² For full text see Report, July 1963, pp. 39-40.

³ See Secretary McNamara's testimony Hearings, 1966 pp. 4; 6-17. See also pp. 80, 110; 144-145.

⁴ See App. 4, p. 240; App. 5, p. 273; App. 6, p. 239.

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ECONOMIC IMPACT OF FEDERAL PROCUREMENT

INTRODUCTION

The Subcommittee on Federal Procurement and Regulation has given continuity of attention to certain subjects in its reports,¹ hearings,² and staff investigations³ in order to bring about better understanding of their scope, diversity, and impact upon our economy. We have also tried to reduce the gross waste which has so long characterized their operations. The subjects covered in this report are therefore of a followup nature.

For purposes of orientation, some statistics on the size of Federal procurement and related activities are provided:

¹ Report, October 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 Cong., 2d sess. (Hereinafter called "Report, October 1960.")

Report, July 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 Cong., 1st sess., July 1963. (Hereinafter called "Report, July 1963.")

Report, September 1964: "Economic Impact of Federal Supply and Service Activities," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 88th Cong., 2d sess. (Hereinafter called "Report, September 1964.")

Report, July 1965: "Economic Impact of Federal Procurement," report of the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 1st sess. (Hereinafter called "Report, July 1965.")

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 Cong., 2d sess., Jan. 28, 29, and 30, 1960. (Hereinafter called "Hearings, 1960.")

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 Cong., 1st sess., June 12, 1961. (Hereinafter called "Hearings, 1961.")

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 Cong., 1st sess., Mar. 28, 29, and Apr. 1, 1963. (Hereinafter called "Hearings, 1963.")

Hearings, 1964: "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, 88th Cong., 2d sess., Apr. 16 and 21, 1964. (Hereinafter called "Hearings, 1964.")

Hearings, 1965: "Economic Impact of Federal Procurement," hearings before the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 1st sess., Apr. 27, 28, and 29, 1965. (Hereinafter called "Hearings, 1965.")

Hearings, 1966: "Economic Impact of Federal Procurement," hearings before the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 2d sess., Jan. 24, and Mar. 23 and 24, 1966. (Hereinafter called, "Hearings, 1966.")

³ Staff study, 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, 86th Cong., 2d sess., February 1960. (Hereinafter called "Staff Materials, 1960.")

Staff study, 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, 88th Cong., 1st sess., March 1963. (Hereinafter called "Staff Materials, 1963.")

Staff study, 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 Cong., 2d sess., April 1964. (Hereinafter called "Staff Materials, 1964.")

Staff study, 1965: "Background Materials on Economic Impact of Federal Procurement," prepared for the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 1st sess., April 1965. (Hereinafter called "Staff Materials, 1965.")

Staff study, 1966: "Background Material on Economic Impact of Federal Procurement—1966," materials prepared for the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 2d sess., March 1966. (Hereinafter called "Staff Materials, 1966.")

2 REPORT: ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1966

1.—Grand total—Obligations by object class, by fiscal years ¹

[In millions of dollars]

Description	Administrative budget			Trust funds		
	1964 actual	1965 estimated	1966 estimated	1964 actual	1965 estimated	1966 estimated
Contractual services and supplies.....	47, 216	49, 253	49, 187	998	1, 211	1, 515
21 Travel and transportation of persons.....	1, 295	1, 353	1, 388	11	12	12
22 Transportation of things.....	2, 947	2, 932	2, 889	9	17	19
23 Rent, communications, and utilities.....	1, 884	1, 974	2, 295	43	44	45
24 Printing and reproduction.....	269	276	287	4	4	4
25 Other services.....	19, 317	20, 102	20, 018	728	803	1, 038
Services of other agencies.....	1, 112	1, 212	1, 192	20	23	26
Payments to specified accounts.....	345	381	421	8	8	8
26 Supplies and materials.....	20, 046	21, 022	20, 695	176	299	364
Acquisition of capital assets.....	29, 240	29, 114	28, 303	900	1, 311	1, 708
31 Equipment.....	15, 851	14, 164	13, 317	399	617	760
32 Lands and structures.....	4, 123	4, 483	4, 198	102	193	221
33 Investments and loans.....	9, 266	10, 467	10, 788	400	501	724
Grand total.....	76, 456	78, 367	77, 490	1, 898	2, 522	3, 223

¹ Staff materials, 1966, p. 3.

2.—Worldwide trends in Federal real property holdings, 1955-65 ¹

COST IN BILLIONS

	1955	1965	Increase	
			Amount	Percent
Civilian agency holdings.....	\$13. 7	\$21. 7	\$8. 0	58
Defense holdings.....	24. 3	44. 7	20. 4	84
Total.....	38. 0	66. 4	28. 4	75
Inside United States.....	32. 5	59. 8	27. 3	84
Foreign and outlying areas.....	5. 5	6. 6	1. 1	20
Total.....	38. 0	66. 4	28. 4	75

ACRES IN MILLIONS

Civilian agency holdings.....	722. 3	736. 3	14. 0	2
Defense holdings.....	31. 2	30. 0	(1. 2)	(4)
Total.....	753. 5	766. 3	12. 8	2
Inside United States.....	407. 9	765. 8	357. 9	88
Foreign and outlying areas.....	345. 6	. 5	(345. 1)	(100)
Total.....	753. 5	766. 3	12. 8	2

¹ Ibid., p. 6.

3.—Expenditures for DOD military functions as percentage of gross national product, fiscal years 1939-65 ¹

[In billions of dollars]

Fiscal year	Gross national product	DOD military function		Fiscal year	Gross national product	DOD military function	
		Expenditures	Percent of GNP			Expenditures	Percent of GNP
1939	88.2	1.1	1.2	1953	359.7	43.6	12.1
1940	95.7	1.5	1.6	1954	362.0	40.3	11.1
1941	110.5	6.0	5.4	1955	377.0	35.5	9.4
1942	140.5	23.6	16.8	1956	408.5	35.8	8.8
1943	178.4	62.7	35.1	1957	433.0	38.4	8.9
1944	202.8	75.8	37.4	1958	440.2	39.1	8.9
1945	218.3	80.0	36.7	1959	466.7	41.2	8.8
1946	202.8	42.0	20.7	1960	494.8	41.2	8.3
1947	223.3	13.8	6.2	1961	506.6	43.2	8.5
1948	246.6	10.9	4.4	1962	539.4	46.8	8.7
1949	261.6	11.6	4.4	1963	568.7	48.3	8.5
1950	263.8	11.9	4.5	1964	603.4	49.8	8.2
1951	310.8	19.8	6.4	1965	649.6	46.2	7.1
1952	338.8	38.9	11.5				

¹ Ibid., p. 16.

 4.—DOD property holdings as of June 30, fiscal years 1955-65 ¹

[In millions of dollars]

Total and type of property	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Personal	107,351	111,164	121,129	112,574	120,971	122,620	124,470	129,457	134,799	136,721	138,664
Supply systems	50,780	50,974	53,799	47,652	44,467	42,002	40,837	40,652	40,096	38,795	36,986
Stock funds	8,153	9,772	10,970	8,913	8,162	7,312	6,413	6,154	6,527	5,749	5,327
Appropriated funds	42,627	41,202	42,829	38,739	36,305	34,690	34,424	34,498	33,569	33,046	31,659

¹ Ibid., p. 16.

 5.—Proceeds from disposal sales of surplus personal property by the military departments, fiscal years 1958-65 ¹

[In millions]

Proceeds from disposal	Fiscal year—							
	1958	1959	1960	1961	1962	1963	1964	1965
From sale (other than scrap and salvage)	\$128	\$140	\$124	\$106	\$87	\$59	\$61	\$55
From sale of other property	55	72	70	61	48	40	42	53
Total	183	212	194	167	135	99	103	108
Acquisition cost (total)	5,460	7,366	5,983	6,123	3,482	3,446	4,815	3,958
Percent of total gross proceeds to total acquisition cost	3.38	2.88	3.24	2.71	3.87	2.87	2.14	2.72
Percent of proceeds to acquisition cost (other than scrap and salvage)	5.18	5.2	5.25	5.98	7.02	6.66	6.22	5.64

¹ Ibid., p. 40.

4 REPORT: ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1966

6.—Costs of disposal sales of surplus property by the military departments, fiscal years 1958–65¹

[In millions]

Costs of disposal sales of surplus property	Fiscal year—							
	1958	1959	1960	1961	1962	1963	1964	1965
Cost for demilitarization.....	\$24.0	\$20.5	\$26.6	\$19.1	\$9.1	\$9.5	\$12.7	\$13.2
Costs for preparation and selling.....	18.5	37.8	51.8	65.5	69.0	62.6	64.6	65.1
Total.....	42.5	58.3	78.4	84.6	78.1	72.1	77.3	78.3
Gross proceeds.....	183.0	212.0	194.0	167.0	135.0	90.0	103.0	108.0
Percent of sales costs to gross proceeds.....	23.0	27.5	40.4	50.6	58.0	75.2	75.0	72.5

¹ Ibid., p. 40.

The subcommittee's recent hearings⁴ were convincing that progress is being made in many ways in the development of a more economical and efficient Federal supply system within the military and civilian branches and between them. A spirit of cooperation exists between the DOD and GSA. Functions and classes of supply items are being reviewed to determine which should be administered by military and which by civilian agencies in the best interests of the Government. Secretary McNamara and Administrator Knott have given their support to this program.⁵

Despite the undoubted progress that has been achieved during the past few years, it should be kept in mind that much remains to be accomplished as evidenced by some 80 General Accounting Office (GAO) reports issued in 1965 on these general subjects⁶ including the 3 special reports prepared at the subcommittee's request.⁷

Some problem areas are highlighted in the following report of which several are interagency in nature, thus demanding top executive agency support and action if large-scale improvements are forthcoming as expected by the President.

⁴ Hearings, 1966, pp. 7; 110–144; 180.

⁵ Ibid pp. 42, 111.

⁶ Staff Materials, 1966, pp. 59–123.

⁷ Hearings, 1966, appendixes 4, 5, and 6.

FINDINGS AND RECOMMENDATIONS

I. DEVELOPMENT OF A NATIONAL SUPPLY SYSTEM

Findings. The subcommittee's report last year⁸ stated that, "the prospect for an economical and efficient supply and general services system as intended by Congress for the Federal Government has never been so bright" and recommended the resolution of certain long-pending interagency problems and a report of actions taken thereon at the 1966 hearings.

The testimony of witnesses from the DOD, GSA, and Bureau of the Budget (BOB)⁹ shows that significant actions have been taken which will help correct the deficiencies. Administrator Knott's testimony summarizes the principal actions taken during the year. (App. 1, p. 15.) This is consistent with the President's program to—

- (a) Achieve maximum effectiveness in the conduct of day-to-day operations of the Government;
- (b) To seek in every feasible way to reduce the cost of carrying out governmental programs; and
- (c) To conduct the affairs of the Government on an orderly basis.¹⁰

A reduction in unnecessary demand stemming from duplicative systems is also of prime importance at the present time in curbing inflationary pressures.

Recommendation. This basic program of eliminating overlap and duplication in the numerous supply and service systems of the Government should continue agency by agency as staff time is available for the necessary surveys.

As stated later in this report (see pp. 6-8), the national supply system requires adequate inventory controls in order to obtain full utilization of existing stocks including short-shelf-life items.

II. ADEQUACY OF CONTRACTOR INVENTORY CONTROL

Findings. As a result of subcommittee hearings in 1965 the GAO was requested to make a survey of the adequacy of controls over Government-owned inventory in the possession of defense contractors and report its findings by March 1966.¹¹

The entire report is printed in the hearings¹² but may be highlighted by a few points:

1. Five classes of Government property are involved, with these reported values in 1965:

(a) Material	\$2, 167, 000, 000
(b) Special tooling	1, 778, 000, 000
(c) Special test equipment	(1)
(d) Military property	194, 000, 000
(e) Facilities	2, 961, 000, 000
Total	7, 100, 000, 000

¹ Cost included in (b).

⁸ Report, July 1965, p. 3.

⁹ Hearings, 1966, pp. 70; 111-114; 183.

¹⁰ *Ibid.*, p. 208.

¹¹ Report, 1965, p. 11.

¹² Hearings, 1966, app. 4, pp. 240-249.

2. It is the policy of the DOD to have its contractors maintain the official records of Government-owned property in their possession.

3. A Government property administrator is designated for each contract involving Government property.

4. Government-owned property is located at some 5,000 plants operated by contractors. About 50 of these in 1965 were engaged in the manufacture of major weapons systems with the Army, Navy, or Air Force responsible for property administration.

5. The newly formed Defense Contract Administration Services (DCAS) of the Defense Supply Agency (DSA) is responsible for control of property at plants not involving major weapons systems procurement.

6. The GAO report is persuasive in its findings which are confirmed by three surveys by DCAS staff since the issuance of the subcommittee's last report,¹³ that:

(a) There is need to improve the quality of surveillance over the multibillion-dollar contractor controlled inventory of Government properties to protect the public interest. For example, records do not adequately show the extent of use of Government equipment on nondefense work or the need for contractor retention of costly Government equipment in many cases.

(b) There is need to review the policy as to contractor's liability for Government property which is lost, damaged, or destroyed since now under certain contracts no liability attaches unless it can be established that the loss was caused by willful misconduct or lack of good faith.¹⁴

Recommendations. The subcommittee concurs in the recommendation of the GAO¹⁵ "that the DOD undertake a thorough study to determine * * * the most effective and economical method of obtaining adequate control over Government-owned property in the possession of Defense contractors."

It should be added that Assistant Secretary of Defense Ignatius testified "that he was glad that the subcommittee had asked the GAO to make this report" and that it would be carefully studied and acted upon.¹⁶

This is a problem of major importance. There are several billion dollars' worth of Government property involved and there is sufficient urgency that the subcommittee further recommends that the GAO cooperate with the DOD in the development of an adequate contractor inventory accounting system, approve the system when found to be adequate and report thereon to the subcommittee in March 1967.

A thorough review should also be made of any misuse or unauthorized use of Government property in the hands of contractors and proper settlement made as soon as possible.

It is also recommended that the newly organized Defense Contract Administration Services (DCAS)¹⁷ which has already made an impressive record should have its responsibilities extended to other types of contracts as soon as may be practicable.

It is planned to review this subject at considerable depth at our next hearings.

¹³ *Ibid.*, pp. 249-272.

¹⁴ *Ibid.*, pp. 245-248.

¹⁵ *Ibid.*, p. 248.

¹⁶ *Ibid.*, p. 88.

¹⁷ *Ibid.*, app. 8, p. 305.

III. UTILIZATION OF PERSONAL PROPERTY INVENTORIES

Findings. The subcommittee's 1965 report stated:

"There is a potential for much greater Government utilization of inventories from which surplus declarations have averaged \$5,833 billion for fiscal years 1958-64."¹⁸

Considerable improvement was made in fiscal 1965 with the DOD reporting an increase in utilization of assets from \$1.287 billion in 1964 to \$1.450 billion in 1965. During the same period, disposals of personal property dropped from \$5.399 billion to \$4.769 billion.¹⁹

GSA reported transfers for utilization of personal property during the same period of \$677 million.²⁰

The subcommittee also recommended in 1965²¹ that greater use be made of the Defense Logistics Supply Center (DLSC) at Battle Creek, Mich., facilities for screening Federal agency requirements against supply systems inventories which in the DOD alone amounted to \$37 billion as of June 30, 1965. (See p. 3.)

The subcommittee recommended that the DOD, GSA, and BOB institute a program to insure a greater matching of agency requirements against existing Government stocks. Witnesses at the recent hearings, while approving the idea, indicated that more computer capacity is needed at DLSC to do the job and that such equipment is being installed.²²

Recommendation. The subcommittee therefore reiterates its recommendation and will, during hearings in 1967, review the amount of utilization of existing stocks, the scope of excess and surplus declarations of personal property and of short-shelf-life items in particular. (See below.)

IV. SPECIAL PROGRAM FOR MANAGEMENT OF SHORT-SHELF-LIFE ITEMS

Findings. Our hearings over several years' time showed that the Government was sustaining losses amounting to millions of dollars attributable to deficient supply management practices involving items with a short-shelf-life such as paints, lacquers, varnishes, photographic materials, medical supplies, rubber goods, chemicals, etc.²³

While most of the stocks are in DOD inventories, others have been found in the GSA and the Public Health Service (PHS) of the Department of Health, Education, and Welfare (DHEW). Of current concern is \$8 million worth of medical supplies acquired for national emergency purposes and held by PHS. The subcommittee was notified by the Secretary of DHEW in 1965²⁴ that he was aware of the problem and was working with other agencies and industry to rotate and make use of these short-life stocks.

Testimony in 1966²⁵ brought forth these points:

1. In October 1965 an interagency committee chaired by GSA, was formed to explore ways and means to utilize the PHS medical stockpile items. DOD and Veterans' Administration (VA) have taken about \$5 million worth.

¹⁸ Report, 1965, p. 3.

¹⁹ Hearings, 1966, p. 12.

²⁰ *Ibid.*, p. 119.

²¹ Report, 1965, pp. 3-4.

²² Hearings, 1966, p. 101-102.

²³ Report, 1965, p. 4.

²⁴ Hearings, 1965, pp. 123-124.

²⁵ Hearings, 1966, pp. 81, 103, and 115.

2. PHS has destroyed \$19 million worth the past year.

3. About \$8 million additional will become worthless if not used in 18 months.

A legal problem is involved in that the \$8 million worth of materials are technically "needed" and so may not be declared as "excess" and transferred to other Federal agencies or donated to State and local institutions though their life will be exhausted before they can be used. Bills have now been introduced to correct this deficiency.²⁶

The PHS medical supplies are but a fraction of the \$703 million short-shelf-life items which have been identified by a DSA/GSA study group.²⁷

Recommendation. All the \$703 million of short-shelf-life stocks should be examined for use. This is an interagency problem whose solution involves top management in the executive branch. First, any legal impediments should be removed so this property may be used in the Federal Establishment and if not needed or usable there within its lifespan it should be made available for use in schools, hospitals, or other eleemosynary institutions.

The subcommittee will expect detailed information next year on the utilization, transfer, donation, sale, destruction, or other disposition of the medical supply stocks and short-shelf-life items generally.

The subcommittee is concerned that the weaknesses now revealed in the management of short-shelf-life items may be indicative of inadequacies in the management of stores inventories costing many billions of dollars.

Further recommendation. The GAO has indicated that it intends to continue a review of the adequacy of inventory controls in the DOD as a priority matter.²⁸ The subcommittee requests that some classes of short-shelf-life should also be reviewed as a test of the adequacy of inventory controls generally and that a report be made on the subject at its hearings next year.

V. PROCUREMENT OF COMMERCIAL-INDUSTRIAL TYPE PRODUCTS

Findings. President Johnson on March 3, 1966, issued a memorandum to the heads of departments and agencies entitled "Government Procurement Guidelines".²⁹ It directed the Director of the Bureau of the Budget to issue detailed guidelines for the determination as to when the Government should provide products and services for its own use under the general policy of reliance upon private enterprise.

BOB circular No. A-76, dated March 3, 1966, was issued by Director Schultze to implement the President's directive.³⁰

The subcommittee has recommended for several years that more aggressive action be taken in eliminating nonessential existing Government commercial-industrial type activities and arresting the initiation of new ones, so is pleased that this step has finally been taken, which is bipartisan in nature in amending and presumably strengthening prior action taken during the Eisenhower administration.³¹

Inasmuch as the BOB guidelines are very detailed and require review, interpretation, implementation and testing by the departments and agencies, it will be some time before their impact is

²⁶ See S. 3328 (Senator Proxmire) and H. R. 15210 (Representative Griffiths), 89th Cong., 2d. sess.

²⁷ Hearings, 1965, p. 379 et seq.

²⁸ Hearings, 1966, p. 165.

²⁹ Hearings, 1966, app. 1, p. 208.

³⁰ Ibid., app. 1, p. 203.

³¹ Ibid., app. 1, pp. 208-212.

discernible. It is noted that no specific agency has been designated by the President as the place where complainants may present their cases for consideration or appeal so it is presumed that the BOB will exercise this function.

The subcommittee is of the belief that the BOB, backed by this new directive from the President thus augmenting its broad authority over the budgetary, legislative, organization, and management functions of the executive branch, should make effective progress in the future.

While the subcommittee has pressed for a more aggressive policy in leaving to the private sector those activities which are nongovernmental in nature, it also stresses the point that the Government must not by delegation, contract, default, or otherwise, permit the proper functions of Government to be exercised by the private sector. Also in the disposition of properties heretofore used in the production of commercial products or services, it is always necessary that a fair return be obtained to the Government.

Recommendation. No specific recommendation is made at this time pending the implementation of the new program, but the subject will be reviewed at the next hearing.

VI. PROCUREMENT AND REGULATION UNDER THE BUY AMERICAN ACT

Findings. In the formulation of an integrated national supply system (see p. 5) a high degree of cooperation has developed between the Department of Defense and the General Services Administration. A memorandum of agreement was executed in January 1964 by the parties.³² Secretary McNamara has stated his position before the subcommittee on several occasions that he favors having GSA procure civilian-type items for the DOD and GSA is performing well in this capacity.

In 1964, after lengthy discussions, the function of procurement of handtools generally was transferred from the DOD to GSA with apparent success. It now appears that this part of the national program may be in jeopardy owing to the lack of uniformity in the application of differentials under the Buy American Act. Briefly, the act provides that American products or products manufactured from materials substantially produced in the United States will be procured for public use by Federal agencies unless the department or establishment head determines that to do so would be inconsistent with public interest or the cost would be unreasonable.

Since the act does not specifically define "reasonable cost," the agency heads in the past have applied varying cost differentials when foreign items were considered for procurement.

In 1954 Executive Order 10582 was issued to bring about uniformity in the application of the Buy American Act.³³

However, the balance-of-payments problem has now caused a lack of uniformity to develop in the application of the Buy American Act with the result that the DOD permits a 50-percent differential in favor of American products (handtools) while GSA is allowed to use only a 6-percent differential.³⁴

The result is that foreign bidders, mostly Japanese, are obtaining awards from GSA with its 6-percent differential that would not be possible if the procurements were made by DOD.

³² Staff materials, 1965, p. 217.

³³ Hearings, 1966, app. 2, p. 217.

³⁴ *Ibid.*, p. 138.

So an American producer gets the award on the identical items if Agency A does the buying and loses it if Agency B is the purchaser for the same program in the United States. Obviously, if this lack of a policy continues, the American handtool industry will lose more and more business and eventually strive to have the procurement function returned to the military agencies which utilize the 50-percent differential.³⁵

GSA Administrator Knott made it clear in his testimony that there is no misunderstanding between GSA and DOD on the subject but, "the policy decision rests with the Bureau."

So the Bureau was asked specifically:

"Does the Bureau of the Budget support the current practice of executive agencies applying different differentials under the Buy American Act when purchasing (a) the same item, or, (b) the same class of items?"

The Bureau replied:

"As a temporary measure, the Bureau of the Budget has supported the existing practice among civilian agencies and the Department of Defense. We believe the existing differences between the practices followed by the Department of Defense and the civilian agencies should be eliminated when problems of trade negotiations and balance of payments are less critical. We believe a change at this time would not be advisable but will be pleased to support appropriate actions toward a more uniform policy as soon as these problems are relieved."³⁶

This response does not meet the issue. The testimony given to the subcommittee was to the effect that DOD was using a 50-percent differential to help the balance-of-payments problem by awarding business to American producers at an added cost through fiscal 1965 of \$67.5 million. To the extent that GSA takes a different course and makes awards to foreign producers, the DOD Balance of Payments program is undermined as is any existing trade agreement.

Recommendation. The subcommittee strongly recommends that the Bureau of the Budget take steps to apply uniform differentials under the Buy American Act for the same items regardless of which Federal agency does the buying for the Government. Of value also would be a high level executive study to determine a reasonable cost for a dollar's reduction in the balance-of-payments.

VII. COMPETITIVE AND NEGOTIATED PROCUREMENT

Findings. The subcommittee has consistently urged that advertised bidding procedures be used to a greater extent in making Government procurements in order to secure the benefits which long and often sad experience has shown derive therefrom as stated by the Comptroller General of the United States in 34 C.G. 551:

"The courts and accounting officers of the Government have frequently and consistently held that section 3709, Revised Statutes, was designed to give all persons equal right to compete for Government business, to secure to the Government the benefits which flow from competition,

³⁵ Hearings, 1966, app. 2, pp. 214-232.

³⁶ Hearings, 1966, app. 11, p. 408.

to prevent unjust favoritism by representatives of the Government in making purchases for public account, and to prevent collusion and fraud in procuring supplies or letting contracts.”³⁷

Small business concerns also secure a greater amount of business under advertised bidding.³⁸

While DOD-wide competitive bidding increased significantly from 32.9 to 43.4 percent, and advertised bidding from 12 to 17.6 percent from 1961–1965, the DSA, which procures 1.3 million common-type items of the 3.8 million items for defense agencies, reports that for the first 5 months of fiscal 1966, 92.9 percent of total awards were subject to competition and 33.6 percent by advertised bidding. This attests primarily to the greater standardization in the items procured by DSA.

In further contrast, the GSA which procures as a general rule highly standardized items for both military and civilian agencies reports that 77 percent of all its total procurements are made by advertised bidding.³⁹

Recommendations. It is recommended that the program of item standardization which requires adequate specifications and drawings be pursued as vigorously as possible especially during the present period when the economy is running at such a high level of capacity.

Related to this is the program of obtaining competitive bids for common type parts or components which are used in the construction of complex end items such as ships, aircraft, missiles, tanks, etc. This so-called breakout program recognizes the fact that common or standard parts may be procured competitively as they are subject to detailed specification which is not so for the end item.

VIII. REAL PROPERTY MANAGEMENT

Findings. The DOD and GSA continued to achieve success in fiscal 1965 in generating and disposing surplus real property. Secretary McNamara summarized the results in the DOD from 1961 to 1965 as follows:

*Military property released 1961–65*¹

New use	Number of locations	States	Acres
Civil airports.....	23	13	6,478
Schools and universities.....	98	34	11,617
Parks, recreation, community development.....	78	32	39,486
Private industry for production.....	37	18	12,647
Individuals and small companies.....	171	39	55,472
Federally owned reserved lands.....	6	3	627,785
Other Federal agencies.....	57	25	36,386

¹ Hearings 1966, p. 32.

Administrator Knott of GSA stated that “the investment in properties donated for education, health, airports, historic monuments, wildlife conservation, and parks and recreation during the 10-year period ending June 30, 1965, totaled \$577 million. He also advised that in the past 4 years, sales by GSA of 92 industrial facilities fur-

³⁷ Report, October 1960, pp. XII; 23–25, app. 3, p. 93–95. Report, July 1963, pp. 2–4. Report, September 1964, pp. 5–6. Report, July 1965, p. 11.

³⁸ Hearings, 1966 p. 135.

³⁹ *Ibid.*, p. 133.

nished employment for more than 56,000 employees with an annual payroll of over \$390 million.⁴⁰

These are heartening showings of progress. The subcommittee points out, however, that the value of the Government's real property holdings has continued to rise year by year to a total of \$66.4 billion (see p. 2) as new programs are begun and values increase. Also, that two recent GAO reports focus attention on the fact that very valuable Government land is retained by military agencies and kept in low priority use.⁴¹

Recommendations. There is a continuing need to screen the Government's real property holdings to determine if they are being put to the best and highest use from the national point of view. Since the holding agencies may not be entirely objective in the matter and have the sole authority to make the declarations of excess, it is recommended that a high level economic policy committee be assigned the task of reviewing agency real property holdings and making recommendations to the President as to their continued retention and highest use.

IX. SALES OF SURPLUS PROPERTY AND USE OF RECEIPTS

Findings. The subcommittee requested the GAO to make a study and report on the cost of sales of surplus property and disposition of receipts.⁴² A synopsis of the report as stated by Comptroller General Staats is (a) that some of the sales proceeds were improperly used to reimburse expenses not directly related to disposal operations and (b) that there is need to improve the accounting system and cost control for disposal operations in the DSA.

Recommendation. Since the DOD did not have sufficient time to study fully the GAO report before the hearings and is currently reviewing the program, the subcommittee will not make any recommendations until this has been done.

The observation is made, however, that it is fiscally unsound to permit agencies to create their appropriations by the use of receipts from the sale of surplus property. This not only bypasses the normal budget-appropriation process but as the GAO pointed out in the instant case, the agency was tempted to misuse extra receipts for other than authorized purposes. The need for operating funds may also lead to unwarranted sales.

The subcommittee notes a similar situation with regard to the GSA's utilization of receipts from the sale of automotive equipment and the use of the proceeds to finance procurement of vehicles for the motor pools.⁴³ Thousands of vehicles are sold annually without being made available to other agencies or to the Nation's education and health institutions which need and could use many of them if made available under the Donable Surplus Property Act.⁴⁴

⁴⁰ Ibid., p. 132.

⁴¹ Ibid., app. 7, pp. 302-304.

⁴² Ibid., app. 5, pp. 273-288.

⁴³ Hearings, 1965, pp. 190-192. Hearings, 1966, pp. 412-413.

⁴⁴ Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 471, sec. 203(j).

GENERAL ANALYSIS OF OTHER COMMON ACTIVITIES

The review and integration of common supply and service activities incident to the development of a national supply system (see p. 5) is producing beneficial results.

Likewise, Secretary McNamara has done an outstanding job in identifying, analyzing, and in some instances integrating common supply and service activities in the Department of Defense pursuant to the McCormack-Curtis amendment of 1958 to the National Security Act. He has established the Defense Supply Agency which is doing a noteworthy job with annual savings of \$59 million⁴⁵ and with a reduction of 8,500 people.⁴⁶ The Defense Communications Agency, the Defense Intelligence Agency, the Military Traffic Management and Terminal Service, the Defense Contract Administration Service, and the Contract Audit Service have also been established.

RECRUITING

The Comptroller General testified that the GAO is making a survey of the individual recruiting organizations and facilities of the four military services and has made a preliminary report to the DOD. It is anticipated that the final report will be available in a few months.⁴⁷

CONSTRUCTION ACTIVITIES

The GAO is also making a study of civilian agency construction activities and will report to Congress on its findings. This is a meritorious project since many agencies are engaged in these activities each with its staff, facilities, and equipment.

PRINTING AND BINDING

The common printing and binding function as recommended in last year's report⁴⁸ deserves special attention in view of the fact that plans have been underway to build a new Government Printing Office (GPO) building at a reported cost of \$46 million on excess Government land valued at \$3.5 to \$4 million.⁴⁹ At this time and for years there has been considerable duplication in the supply functions as between the GPO and GSA which have not been resolved as a step in developing the national supply system.⁵⁰ Nor has the full potential of the large and diversified private printing industry been utilized in fulfillment of the President's policy (see p. 8). It seems obvious that job loads should be determined before more nontaxable facilities are constructed.

⁴⁵ Hearings, 1966 p. 36. See also Staff Materials, 1966, app. 2, p. 42 for a progress report on DSA.

⁴⁶ Hearings, 1966, p. 81.

⁴⁷ Ibid., p. 164.

⁴⁸ Report, 1965, p. 7.

⁴⁹ Hearings, 1966, app. 11, p. 414.

⁵⁰ Ibid., pp. 413-414.

AUTOMATIC DATA PROCESSING (ADP)

Witnesses from the GSA and BOB indicated that progress is being made in bringing better management to the procurement and use of automatic data processing equipment which has an annual cost of \$3 billion to the Government. However, a detailed review will not be undertaken by the subcommittee until the GAO makes a study which it announced on November 25, 1965, to the heads of executive departments and agencies.⁵¹ This is a high priority study which should aid in bringing the ever-growing ADP problem under better management and control. It is expected that the GAO will recommend any changes in the Brooks-Douglas Act (Public Law 89-306) which may be required.

⁵¹ Ibid., p. 163.

APPENDIX

DEVELOPMENT OF A NATIONAL SUPPLY SYSTEM

(Excerpted from statement and testimony of Administrator
Lawson B. Knott)⁵²

DEFENSE SUPPLY AGENCY/GENERAL SERVICES ADMINISTRATION AGREEMENT

"Last year we reported to the subcommittee that an agreement between GSA and DOD governing supply management relationships had been signed in late 1964. The agreement envisions the fitting together of supply management capabilities of DSA and GSA to form a coordinated national supply system for the Federal Government.

"This will provide the Federal Government with an efficient and economical system for the procurement and supply of personal property and will eliminate avoidable duplication. For example, there are presently some 1,100 items stocked both by GSA and DSA. We believe that little, if any, of this duplication will continue to exist under this dual management when the joint studies now underway are completed.

"During the past year, DSA and GSA have proceeded toward progressive implementation of this agreement. The DSA/FSS Material Management Review Committee (MMRC), established last year, completed its examination of 152 Federal supply classification (FSC) classes now managed by DSA to determine those which should continue to be managed by DSA and those which should be transferred to GSA. Fifty-three of these FSC classes studied were assigned to GSA and 99 remained with DSA. The 53 classes assigned to GSA will be transferred late this year.

PROGRESS IN CIVILIAN AGENCIES

"Integration of civilian agencies into the national supply system. Basic plans have been developed and actions taken to integrate the supply systems of several civilian agencies into the national supply system. The subcommittee was specifically interested in four agencies and selected commodity classes.

"We have made good progress in these areas:

"1. Analysis of cost and resource data on electronic, fuel and clothing and textiles indicates that it is feasible for DOD to support civil agencies for these items. We are now ascertaining what Government-wide savings would result from assignment of Government-wide supply support for these items to DOD.

"Chairman DOUGLAS. You are willing to give up jurisdiction on these items?

"Mr. KNOTT. Yes, sir; again, where they have the major capability, the major interest, it will avoid duplication and effect savings for the Government overall, then I think we should go in that direction.

⁵² Hearings, 1966, pp. 111-114.

"Chairman DOUGLAS. You are to be commended. A most unusual type of Government official to surrender jurisdiction and cede power.

"Representative CURTIS. But this is reciprocity, is it not?

"Mr. KNOTT. Yes; it should work both ways. [Laughter.]

"But you notice in the items we studied between GSA and DSA in a more narrow field that actually more items stayed with DSA than the ones that came to GSA, but it should be on the basis of the item itself rather than the numbers.

"2. Further analysis of medical and nonperishable subsistence items is needed to identify the savings potential before a decision can be made on the assignment of these items. An indepth study is now underway to determine whether economies can be achieved through DSA supply support of these items to the Veterans' Administration and the Public Health Service.

"3. Since we have already established that economies will accrue through arrangements for the Veterans' Administration and the Public Health Service to utilize Defense Supply Agency facilities in fulfilling their requirements for perishable subsistence, such arrangements are now being made on an installation-by-installation basis.

"4. A joint GSA/VA review has been made of all other items now managed by VA to determine those which should be supplied by GSA and those which should be retained by VA.

"5. Following a recently completed item-by-item review, agreement has been reached with the Post Office Department whereby GSA will provide direct support to major post offices on all items which the review established should be managed by GSA. This does not include items identified as peculiar to Post Office Department programs, such as lockboxes and mailbags, which will continue to be managed by the Post Office.

"Mr. KNOTT. The Post Office Department will redistribute to the smaller post offices the relatively few GSA-managed items used by them. GSA is currently performing all procurement, contract administration, and quality control for all Post Office Department motor vehicle requirements.

"6. GSA regional depots are now supplying stores stock items directly to the Federal Aviation Agency. Such items are no longer stocked at the Federal Aviation Oklahoma City Depot. As you know, this is their largest depot facility.

"Also, DSA presently supplies FAA electronic tube stock replenishment requirements and it is planned to extend this arrangement to other electronic items available from DSA.

"7. DSA is now the principal direct supply source for National Aeronautics and Space Administration facilities for all electronic items available from DSA. NASA does not maintain redistribution facilities of its own.

"In addition, we have been working, and will continue to work, with other civil agencies looking toward further implementation of the national supply system, including utilization of more effective requisitioning practices. For example:

"1. An agreement is being finalized whereby the Maritime Administration of the Department of Commerce will obtain ships' parts, navigational aids, and other technical item support directly from the Defense Supply Agency.

"2. Cooperative joint efforts between GSA and the Office of Economic Opportunity since its creation have been successful in avoiding the establishment of a duplicate supply system in OEO. Under these arrangements:

"(a) The Job Corps uses certain excess or long-supply military clothing and textiles and other items of equipment and supply, and DSA supports the Corps for other recurring clothing requirements.

"(b) Where it is economical to do so, Job Corps centers obtain both perishable and nonperishable subsistence support either from DSA or local military installations.

"Chairman DOUGLAS. I have inspected some of the Job Corps camps. What you say is true, dungarees furnished from GSA, boots, blankets, excellent.

"Mr. KNOTT. OEO, for a new agency, comes nearer utilizing the full spectrum of services that GSA has to offer than any agency that I know of in Government.

"Chairman DOUGLAS. What we on the Hill are somewhat distrustful of are the empire builders. An agency wants to get everything under its wing. If each agency does this, you get great duplication.

"Mr. KNOTT. Right. They have been willing and ready to use excess property, rehabilitated property, excess installations. They have been willing to use our services, in fact, have called upon us for rehabilitation of their buildings.

"All of our services, in one way or another, have been contributing to their use.

"(c) GSA is now furnishing or arranging to furnish complete supply support for all OEO programs, including the preparation of specifications, procurement and storage and distribution of training materials and other program-type items.

"In each instance, our negotiations with the civil agencies are guided by a single principle: Complete and effective supply support for Federal agencies at the lowest cost to the Government as a whole. Each arrangement we have concluded or have underway is designed to avoid duplication of effort in the management, procurement, storage, and distribution of the Government's supply needs.

"Since the last hearings, we have been working on additional aspects of the short-shelf-life problem."

