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WAR DEPARTMENT ORGANIZATION FOR PROCUREMENT  
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GENERAL ARMSTRONG:

Gentlemen, the speaker this morning will discuss the question of geographical, commodity and functional organization in the business of procurement. You have seen how all three of those considerations have an important influence, to a greater or less degree, in all the problems of the various technical services of the Army and Navy and in the over-all problem of procurement as well.

The speaker this morning graduated from the Military Academy in 1930 and from many other schools: The Ordnance School, Tech, and Harvard University (the Graduate School of Business Administration, at Harvard). He has crowded all that into a few years of active service. He has also been engaged in procurement purchasing in the European Theater of Operations and is now in the ASF. Gentlemen, Colonel P. W. Smith.

COLONEL P. W. SMITH:

General Armstrong, gentlemen: Our topic today is "War Department Organization for Procurement." In previous sessions, you have already studied headquarters organization in the Office of the Under Secretary of War, in the War Department General Staff, and in the headquarters divisions of Army Service Forces and Army Air Forces. You have also studied the organization and functions of headquarters of the technical services and subsidiary organizations in their general principles.

Today, we come to a comparative study of organization and functions at the operating level itself. Since this subject will form a basis for committee study and evaluation, we are going into some detail. I am going to cover it in four steps:

First, I want to give you a little of the background of procurement organization at the operating levels, as we in Army Service Forces headquarters saw it develop during the war.

Second, I will break procurement operations into individual units, or "atoms." By looking at the parts of the job which must be done, we can get a good idea of the problems involved in organizing those parts.

Third, I am going to describe three general types of organization of these "atoms" of the procurement job which evolved during our war experience.

Fourth and last, I am going to explore briefly some possible future developments in procurement organization. This is the subject in which, after all, we are most interested. All the background and study of procurement organization in the past is useful only as it bears on the problem of organization of procurement for the peacetime years to come, and for a possible future war.

Now first, let us examine the background of the development of procurement organizations at the operating level during the war years. As you realize from your previous studies, the accelerated procurement program which preceded World War II found the Army with a number of different and rather independent procurement organizations. Procurement, in the main, was a function of eight of the arms or services--the Air Corps, the Ordnance Department, the Quartermaster, the Surgeon General, the Signal Corps, the Corps of Engineers, the Chemical Warfare Service, and the Coast Artillery Corps. Each of these groups had been operating its procurement system more or less independently in order to meet best its own particular problems.

With the reorganization of the War Department for wartime supply, and with the unprecedented increase in the size of the procurement program, there was a need for tremendous increases in size of organization, for more decentralization, and for more standardization of operations. But, above all else, was the need to get materiel, fast. We were, therefore, not so much concerned with organization as with getting the goods. We were willing to put up with inefficient organizations just so long as the goods were delivered.

Gradually, as the war progressed, this situation changed. A group of prominent businessmen, in cooperation with headquarters staff officers, made a detailed study of procurement office organization and procurement procedures and recommended a number of changes. They recommended eliminating much paper work. They recommended some rather sweeping changes in organization.

But we all recognized that sweeping changes in organization would be likely to interfere temporarily with the flow of supplies. Consequently, we determined to change where we could by gradual evolution, except when organizational difficulties were actually interfering with the office's performance of its mission. In one procurement service, deliveries were seriously behind requirements, and it took a major reorganization to remedy the situation and to get procurement back on schedule. Some other services, in order to improve their operations, made limited reorganizations from time to time. Some procuring services, which the businessmen's survey indicated were inefficient, nevertheless continued to do excellent jobs and were disturbed very little.

I want to give you this background at the very beginning of this lecture because I want you to know there is nothing sacred about the status quo of the procurement organization as it developed during World War II. Since the procurement organization, even at the end of the war, was a compromise between efficiency and the pressing needs of the war itself, our final picture certainly does not represent the ultimate in organization for procurement operations.

The study of procurement organization, therefore, is a very fertile field for your investigation. There is a big job to do. It is a job the armed forces will have to tackle, and will have to perfect, so that procurement will be all ready to go in the event of a future war. It is a job to do in advance, so that we won't again have to put up with inefficiencies on account of the urgency of current procurement demands.

Before we start reorganizing procurement operations, however, we must have a very complete and careful understanding of what those procurement operations are. That leads me to the second part of my talk. I will try, rather quickly, to break down into individual atoms the parts of a procurement organization.

By an atom of a procurement organization I mean an individual or small group of people at a particular place, for a particular commodity, carrying out a particular procurement function. If we break down procurement operations into atomic building blocks of that size, we can see the problems of fitting them together into larger operating units.

You will notice that in describing one of these procurement atoms I have used three kinds of classification. First, I spoke of work at a particular place. In other words, we have a geographical problem of organization. We have people working in Washington, and we have people working in Rock Island.

The next classification I spoke of was work on a particular product. That is what we have come to call commodity organization. We have some people working on propellers and some people working on potatoes.

Finally, I spoke of functions. Some people work on inspection, some on contract placement, some on contract law, and some on renegotiation.

If we imagine an operating procurement organization as a Pentagon Building full of people, we could take a huge imaginary knife and slice the building into procurement atoms. We could make horizontal slices separating the different floors and classifying the people geographically. We could make vertical slices, cutting the building along the corridor lines, and separating the people that work on various classes of commodities. Finally, we might make some pentagonal cuts separating the individual rings of the building and classifying the people by function. When we finished our carving, each piece of the building that remained would be what I call a procurement atom--people working in a particular place, on a particular product, and performing a particular function.

Now let's take a little more professional view of each of these classifications.

First, geographical. Geographical organization may be necessary for a number of reasons. We may have to put certain procurement operations near their natural markets. For example, some of the buying of eggs has to be done in the regular Chicago egg market. Sometimes geographical organization is necessary to place a function near the place a product is manufactured. For example, some items need very close engineering supervision in the manufacturer's plant. Even more general functions, like renegotiation, must be conducted at a place convenient to the contractor. Another advantage in geographical decentralization is that our eggs are not all in one basket. If one area fails to deliver the goods because of poor management, or because an atomic bomb hits its headquarters, other geographical areas can still operate independently.

Now let's look at commodity organization. This is the easiest to understand. As a matter of fact, this type of organizational breakdown was the most highly recommended by our businessmen-experts, who, as I told you, surveyed procurement office organization during the war. It makes sense for experts on canned tomatoes to procure canned tomatoes, and for experts on electronics to procure radar. As science advances, the needs of the armed forces are becoming more and more complicated. More and more there is a need for specialization by commodity types. I think a commodity-type organization is so clear in itself that I need not go into any further explanation.

Finally, we have functional division of procurement operations. We have to make sure that all the functions are discharged, whether the job is done in geographical outfits, in commodity outfits, or in some overall organization of functional specialists. Although functions can be broken down into greater and greater detail--so that there is really no limit to the list, I should like to run over the main headings, based on our experience during the course of the war. There are procurement, renegotiation, termination, and administrative or service functions.

Procurement Functions include the following main headings:

- (a) Buying. By that I mean negotiating and placing contracts.
- (b) Production. This is the function of following up contractors' production after the contract has been placed.
- (c) Procurement service. These are corollary services which must be available to carry on the buying and production jobs. In wartime they include handling of priorities and allocation of materials. They include services relating to labor regulations of the Government. They include engineering and specification services; packaging services; services relating to providing facilities, equipment, and machinery, and so on.
- (d) Finally there is the function of inspection of the materiel after it is delivered.

Renegotiation functions involve an over-all review of each contractor's business after the close of each fiscal year. They are not related to specific contracts, although renegotiation is to some extent inter-related with problems of contract placement and pricing policies.

Contract termination functions involve:

- (a) Contract settlement. By this I mean to include not only negotiation of a termination agreement after a contract has been terminated, but also the negotiation of pretermination agreements under the technique developed to some extent just before the close of World War II.
- (b) Plant clearance. This includes the disposal of termination inventories, plant equipment, and warehousing and shipping.

Administrative and service functions include legal functions; price analysis and accounting functions, including company pricing and price indexing, which of course are, in the main, wartime operations; and termination accounting. Also included among administrative and service functions are fiscal functions of funds control; fiscal accounting, audits, and payment of invoices. Finally, there are, of course, a number of administrative functions which must be discharged in any organization, including personnel, transportation, property accounting, military security, office service, control, etc.

Now, you can see, as we slice up procurement operations into geographical areas, into product groups, and into functional divisions, that we come out with a great number of procurement organization atoms. If there is a mathematician here who has made a study of permutations and combinations, he could probably figure out five billion ways to combine these atoms. Of course many of them would not work. In order to get quickly to some general view of the kind of an organization that would work, let's go into the third part of my subject for today. I want to outline for you the kinds of organization which have been found by

experience to be effective in discharging the procurement mission. They have evolved from many years of growth and experience and are the product of the thinking of a great many brilliant leaders and executives. Out of the evolution of our procurement structure up to the end of World War II, there had appeared three very effective types of organization for procurement operations.

The first and simplest of these types is the smaller organization--the one small organization that has everything in it. As an example of this type, I will describe the Army Medical Purchasing Office in New York, which has now become a combined purchasing office for both the Army and Navy. Second, there is the geographical type of organization. This is perhaps best represented by the Ordnance Department. It is an organization which did a magnificent job in procuring over 25% of the material purchased by the War Department during the entire war. Third, I am going to describe an organization which, in general, breaks down along commodity lines--the Quartermaster Corps. Although procuring only about one-half the dollar volume of the Ordnance Department, Quartermaster was the second largest procuring service in the Army Service Forces. Furthermore, since Quartermaster items are, in general, much less expensive than Ordnance items, Quartermaster faced a procurement problem which is more comparable to that of Ordnance than the dollar volume alone might indicate. Quartermaster also did an excellent procurement job, and did it in the face of civilian competition for consumer items like subsistence and clothing.

Now, let us get back to that example of the small organization, the outfit with nearly everything under one roof--the Army Medical Purchasing Office.

In April 1945, the Army Medical Purchasing Office was divided on what we might call a combined functional and commodity basis. Separate branches were organized to give staff service in the following functions: First, Adjutant; second, Civilian Personnel; third, Legal; fourth, Reports and Records, which included a Machine Records Branch, a Reports Branch, and an Audit Branch; fifth, Office Service; and sixth, Control.

I want to mention here that the Army Medical Purchasing Office actually included more than procurement functions because it also did stock control work. The Reports and Records Office I just referred to was to a large extent concerned with the stock control system.

Now let us take a look at the operating offices. There was a Stock Control Division, in which we have no interest in our present study. There was a Materiel Standards Division responsible for facilities, for specifications, for a catalog, etc. There was a Renegotiation Division. There were a number of miscellaneous attached services such as regional fiscal office, Red Cross Blood Donor Service, Malarial Control, etc. Finally, there was a Purchases Division.

So far, you notice the office is set up on functional lines; however when we get into the Purchases Division we find both functional and commodity type organization. The functional Branches of the Purchases Division

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included Price Analysis; Contractor Service, which we in Army Service Forces usually referred to as Procurement Service; and Contract Termination. In addition to these, however, we find that the Purchases Division was sub-divided into buying branches which specialized by commodity types. Buying Branch #1 was responsible for contracts on drugs, chemicals, biologicals and blood plasma. Branch #2 was responsible for dental, optical, surgical, and veterinary equipment and supplies; surgical dressings, arch supports, first aid kits, canvas cases, and other textile items. Branch #3 was responsible for hospital and laboratory equipment and supplies, X-ray equipment and supplies, field equipment, books and journals, depot upkeep items, and general schedule items.

In comparison with other services, the Medical Department was responsible for a relatively small amount of procurement. Manufacturers with which the department dealt were all reasonably accessible from the site chosen in New York. For these two reasons, the Medical Purchasing Office could nearly disregard geographical division of its operations and could come to close grips with the problem of correlating functional and commodity operations. We must note, however, that it was necessary in actual practice to establish a Chicago branch office, responsible to New York, and that it was necessary to maintain another liaison branch in the Surgeon General's Office in Washington. Even in this fairly simplified case, you can see that procurement operations are getting to the point where geography becomes a factor to reckon with.

My second example of a procurement organization goes all the way to the other end of the scale. The Ordnance Department is the perfect example of a geographical type of procurement office organization.

There are 13 separate Ordnance procurement districts, covering the entire United States. The district headquarters are located at such scattered points as Birmingham, Alabama; Boston, Massachusetts; Chicago, Illinois, and San Francisco, California. In addition, there are 7 Ordnance arsenals, which carry on procurement for their own production, though this is more the nature of subcontracting than contracting. As we view the whole Ordnance procurement problem, the backbone of procurement organization is in the 13 Procurement Districts. Each district duplicates the operating organization of every other district, by functions and by commodities. For example, every district includes a Legal Branch, a Fiscal Branch and a Price Adjustment Board. (A Price Adjustment Board, as you probably know, is responsible for carrying on renegotiation.) In commodity breakdown, a typical district also has an Ammunition Branch, an Artillery Branch, a Small Arms Branch, a Tank and Automotive Branch, and a Miscellaneous Branch.

Let me explain right now that when I say these operations are duplicated in each procurement district, I do not necessarily mean that the same work is being done twice. For example, the Price Adjustment Board in one district works on one list of companies, and the Price Adjustment Board in another district works on another list of companies. Duplication of this kind is, therefore, not necessarily inefficient, provided some central staff controls the job of assignment so as to avoid duplication and to keep the operations of each district at 100% of

workload capacity. In the Ordnance Department, there is a staff in the Industrial Service Division whose function it is to assign procurement responsibility to the individual districts. For example, the staff Artillery Division of Ordnance Industrial Service may assign 5,000 gun carriages to the Chicago Ordnance District and 3,000 carriages to the Springfield Ordnance District. Each district must place contracts with one or more different manufacturers.

It has been the belief of some officers and consultants that this system does result in inefficiencies in procurement which might be avoided if all gun carriage contracts were placed by one organization. Against this, however, you must weigh the arguments in favor of geographical dispersal of procurement in wartime, the advantages of having War Department services, engineers, inspectors, etc., close to the contractor's plant, and other intangible advantages in the geographical system. There are good arguments on both sides of this question.

With that brief over-all view of the Ordnance system of organization, let's examine the organization of a typical district. In many respects, it is quite similar to the organization of the Medical Procurement Office---that is, everything is under one roof---and it has both functional and commodity division of labor.

The typical Ordnance District has branches organized for staff service of the following characteristics: Adjutant, Civilian Personnel, Legal, Office Service, and Control. There are some minor differences in function between this and the organization of the Army Medical Purchasing Office, but they are mere matters of detail. Other operations of the Ordnance District are grouped under the Industrial Division, except for the Price Adjustment Board, which reports directly to the District Chief. Under the Industrial Division are a Production Service Branch, which includes what we called in the Medical Purchasing Office, "Material Standards"; and commodity branches.

Like the Army Medical Purchasing Office, the procuring branches are divided among commodity lines; the typical division is ammunition, artillery, small arms, tank and automotive, and miscellaneous. However, in the typical Ordnance District, various functions which were included in a single branch in the Army Medical Purchasing Office are duplicated in each Commodity Branch. For example, instead of a single branch for Price Analysis, as in the Medical Department, we have a Price Analysis Section for the Ammunition Branch, another one for the Artillery Branch, another for the Small Arms Branch, etc. Similarly, we have individual engineering, production, inspection and termination sections under each commodity branch.

This is a minor difference and might well be settled, according to the volume of work which there is to be done, in any procurement office by the Commanding Officer. To illustrate by using an extreme case, if all price analysis were done by one officer, he would have to function for all commodity branches and could not be assigned to any one. On the other hand, if price analysis on ammunition required the work of 50 price analysts, they could probably be most effectively assigned to the Ammunition Branch.

I think this gives a pretty clear picture of the geographical type of organization. It has a great many things to commend it. On the other hand, it probably means some duplication of work by commodity types among districts and between districts and the staff organization.

There is a third type of procurement organization which has successfully operated on commodity lines rather than on geographical ones. Our example of that is the Quartermaster Corps. Although, by commodity types, this is a somewhat more complicated organization than we might find in the Signal Corps, for example, I have chosen Quartermaster to show that a big procurement job can be done on a commodity basis.

Procurement operations in Quartermaster have been broken down right from the top into subsistence items, and other items. Subsistence items are broken again into perishable and non-perishable. Other items are broken into various classifications and assigned to individual depots. Non-perishable subsistence is assigned to three depots; perishable subsistence is assigned to one of 33 Quartermaster Market Centers.

Instead of having the Philadelphia and Jersey City Depots procure the same things, as they would under the Ordnance type of organization, these two depots specialize by commodities. The January 1, 1945, edition of the War Department publication, "Purchased Items and Purchasing Location," listed the following procurement items of the Philadelphia Quartermaster Depot: "badges, bakers and cooks clothing, bathrobes, blankets," and so on, through hats, and hymnals, raincoats, and ribbons, and on to underwear and zippers. In general, these items might be called clothing items and were grouped in Philadelphia because of their general type. At Jersey City we find a list of what we might call housekeeping items, including bags, paper; brooms; candles; toilet articles; soaps; and stationery.

Similarly, we find other assignments at other Quartermaster Depots: athletic equipment and forage in Kansas City, boots and shoes in Boston, a list of equipage in Jeffersonville, office equipment in Washington, D.C., and dog harnesses and other dog equipment in Richmond, Virginia.

There is some geographical distribution of functions within this system. The Philadelphia Quartermaster Depot for clothing had a sub-office on the West Coast. The non-perishable subsistence depots were located at Chicago, Jersey City, and Oakland, California. You may have noticed that assignments have been made to areas where the bulk of a certain kind of goods is produced. For example, boots, shoes and related equipment, assigned to the Boston Quartermaster Depot, are produced in the greatest quantity in factories in the Boston area. Perhaps the greatest degree of geographical dispersion is found in the perishable subsistence organization, which maintains 33 market centers for fresh and frozen produce at important crossroads throughout the United States, right near the original sources of production.

An individual depot, specializing in certain commodities, includes most of the functions we have discussed. The standard organization of a depot procurement division includes the following general staff branches:

Cost and Price Analysis, Government-furnished materials, Legal, and Inspection. (Inspection, I might say parenthetically, is handled almost on a functional basis throughout the Quartermaster organization. Although inspection organizations are included in local procurement operating offices, they report through channels back to a deputy director for inspection in the Procurement Division of the Office of The Quartermaster General. Renegotiation, also, is set up more or less on an over-all functional basis.) But to go on, I want to point out that, with these exceptions, the operating branches in a Quartermaster depot are somewhat similar to those in the Medical Procurement Office. There is a Contract Termination Branch and a Procurement Services Branch, and there are specialized commodity buying branches for each particular type of commodity.

The Procurement Services function is not divided among the commodity sections, as we found it in the Ordnance Department, but is a separate branch performing over-all functions for all commodity branches, as we found it in the Medical Purchasing Office.

So there you have three successful types of organization. Except for the small office, the atoms of the procurement organization in war-time have tended to be organized either along geographical lines or along commodity lines. Functional organization generally falls either within geographical or commodity classifications, although in some instances there are separate functional organizations. The commodity type of organization has been, in general, most highly recommended by business experts consulted by the War Department. However, the geographical type of organization also has a great deal to commend it.

This summary leads us into point number 4---the last point in my talk this morning. This, you will recall, is a brief discussion of possible future developments in the procurement organization.

Although five of our technical services, and the Army Air Forces as well, are now on a small-office, "everything-under-one-roof" basis, 1 we must look beyond this to the time when we may again need a tremendous expansion in the procurement organization.

We all sincerely hope that there will never be another war. Our nation will cooperate with the United Nations Organization to try to prevent future wars. Since we have no assurance as yet, however, that

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1 Headquarters:

Engineers	- Washington, D. C.	QM - Boston, Chicago,
CWS	- New York, New York	Jeffersonville,
Signal Corps	- Philadelphia, Pa.	and California
Transportation	- Cincinnati, Ohio	Depots. (Jersey City
Medical	- New York, New York	and Philadelphia
Air Forces	- Wright Field	activities now being
Ordnance	- Regular 13 Districts	transferred to New York)

these attempts will succeed, we must assume that there may be another war. In fact, in order to be ready for it, we must almost condition our minds to assume that there will be another war. We may not again have the overwhelming manpower and material strength which permitted us to be inefficient in World War II, when inefficiency could be traded for time. We may have less relative strength, and we may have less time; consequently, we must have a procurement organization ready at every future date.

You will be going into a committee session soon. Perhaps I can suggest some possible directions in which a procurement organization plan for a future war might proceed, and raise some debatable issues for your consideration. For example:

1. Should there be a reassignment of responsibility among technical services by commodity types? This will obviously affect the total volume of procurement of each service. It will also affect the need for geographical organization. For example, if automotive equipment were assigned to a procuring service which had no other responsibilities, the service might want an all-under-one-roof office in Detroit. Or, if all perishable subsistence were assigned to an organization that had no other responsibilities, what is now part of a commodity-type organization in Quartermaster would become a geographical type. Procurement assignment must be recognized as a foundation stone in the procurement organization structure.
2. What are the implications of a consolidation of the Armed Forces? Present plans call for a Director of Common Supply, and, in addition, for specialized procurement organizations under Army, Navy, and Air Forces. All four agencies would be under direction of an Assistant Secretary for Procurement and Industrial Mobilization. Should the organization of the Director of Common Supply be on geographical or commodity lines? And should Army, Navy and Air Force organizations be on geographical or commodity lines?
3. What are the possibilities for functional organization of renegotiation, inspection, and certain production services on an over-all basis? Some of these operations, independent of commodity types, could be discharged geographically for all procuring services. Perhaps this would reduce the reasons for geographical organization of the other buying functions, which could then be placed on a commodity basis. Now I realize that this is a bombshell in our traditional thinking. However, it does have some precedent in the Quartermaster's inspection and renegotiation as we have seen. It is also an important element of Navy Department organization, which may have to be integrated with our own. And, in practice, it might eliminate some duplicate procurement atoms. For example, there would be only one inspection organization in a factory, instead of Ordnance, Air Forces, and Navy inspectors, all responsible for different shipments from the same production line.

The subject grows more fascinating and more complicated as you go into it. It can easily get you into the realm of pure theory, especially if you're working on a nebulous, future war plan that you don't really believe will ever be used. I hope that, wherever you are in the procurement organization, you never slip into that frame of mind. No matter how small a part of the procurement organization you represent, I hope you will have the vision to develop a practical plan that will work when the next war comes---and I say "when" because regardless of your hopes, you cannot afford to think, "IF it comes." You must be ready for a real war, not an imaginary one.

And no matter what your plan and what your problem, I think you will find it helpful if you remember this much of my talk this morning:

An operating procurement organization must relate the geographical, commodity and functional responsibilities of the people who will do the work. Are there any questions?

A STUDENT:

I have one question, Colonel, in connection with your statement about this matter of centralized control of procurement, with which I am heartily sympathetic, based upon my last four years' experience.

We have been discussing from time to time for the last several weeks the possibilities inherent in the development of the atomic bomb. Now if you could possibly centralize the proposed procurement of all the armed forces into one headquarters (as it sounded in the general picture you gave in your lecture just now), what protection would you have if one bomb were dropped on, say, Washington and wiped out that office? What steps would you take so that that organization would not be headless and unable to function?

COLONEL SMITH:

Well, that comes down, to my mind, to this thing I pointed out as an advantage of a geographical organization; that is, each one of those units can operate by itself, or practically so. Now if you should centralize them in order to eliminate any duplication--a smaller organization is probably more efficient--you must, of necessity, have sub-offices mainly because of the geographical expanse you have to cover.

In the light of the fact we have a weapon now which can wipe out a large area at one time, those sub-offices must be a duplicate, in miniature, of your central office; or, at least, there must be one acting duplicate organization.

A STUDENT:

Then, you mean if the over-all procurement source were wiped out for a period of time, each one could function independently and a new organization could be brought together to tie them into a unified organization?

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COLONEL SMITH:

That's right. If now, in time of peace, we could do a good job setting up a procurement organization which could be rapidly expanded into a wartime organization, we could, in time of war, put into effect from your central office, through your sub-offices, that same type of organization.

A STUDENT:

We have heard several opinions on the matter of specialization of military personnel in procurement. What is your opinion on that?

COLONEL SMITH:

As the Army is getting more scientific all the time, and as science is advancing, we are actually forced into specialization. In procurement, we cover a very wide field in many services. I think we are being forced into specialization.

GENERAL ARMSTRONG:

Any more questions, gentlemen?

A STUDENT:

I was interested in what you had to say about the Ordnance organization. As all of you know, it is a touchy subject, but this is an intellectual class and possibly my comment will be all right.

It seemed to me that, while the Ordnance organization was very good and did some good work from the beginning, getting better as it went along, there was one fundamental weakness there, which I think is this:

First of all, the competitive spirit, as developed in the 13 Ordnance districts, was very high. That worked out very well because they were all pretty proud of their record in meeting their production schedules, in getting costs down, tending to hold the contracts out of the high-cost districts and concentrating them in the low in order to alleviate manpower shortages, and so on.

At the same time, however, this competitive whirlpool, so to speak, went so far as to bring about a condition wherein there was little or no coordination or cooperation. I won't say "no". No; I cross that off as an overstatement. But there was not enough coordination between the different districts. When the thing got all snarled up, as it frequently did, it came up to the higher level, the Office, Chief of Ordnance.

Frequently, people who were not close enough to the situation were making decisions. I fully realize that suggesting one service might perhaps be better than some other one is dangerous; nevertheless, I am so tough and long-necked that I'm going to do it anyhow. It seems to me that the Quartermaster Corps, in which I do not think there is really

too much organizational difference, gave the principal commodity-procurement responsibility to the district whose people had the principal interest in that commodity: Boston for shoes; Philadelphia, clothing; and so on.

You see, they were all very close to the actual problems and, if and when any reconciling was needed--and before, if you please, the thing became snarled up, they gave this decision. It seems to me that overcomes the one weakness I saw in the Ordnance Department.

COLONEL SMITH:

I shall answer that, and I will put it on a practical basis. I saw it simply from a bystander's viewpoint. Though I was not a part of the Ordnance procurement organization, it certainly always seemed to me that the Chief of Ordnance picked "eager beavers" for his districts. They, in turn, built up the competitive spirit. At times he just about bit the ears off of them, but he got his material. Yes, there was always the competitive spirit. For example, if Chicago were buying, Cincinnati knew it right quick because Chicago was scooping out from under him a lot of his facility procurement in subcontracts, and vice versa. Now, what I mean to say is that there is that advantage in geographical procurement. Theoretically, it is not so good, I grant you.

I will not try to talk about Quartermaster comparisons. Quartermaster, in Philadelphia, was buying clothing. We cannot compare him with anybody else because he is the only one buying clothing in Quartermaster.

A STUDENT:

Yes, but in your Quartermaster Corps, you also had your OQMG, who can ride herd on Philadelphia, if they tended to drag along.

COLONEL SMITH:

I really don't know. There is no single yardstick.

A STUDENT:

But your other districts, for instance Kansas City or Chicago, are also buying clothing. They are also handling all the other elements of supply, storage and issue, and all the other elements of procurement.

COLONEL SMITH:

They are not buying clothing, though.

A STUDENT:

Oh, yes they are, under the direction of--

COLONEL SMITH (interposing):

Philadelphia?

A STUDENT:

Yes. You see, they are designated--the same condition with Kansas City and all the rest of them. What you have, then, in this situation is, it seems to me, a very good story. You have Boston, who is top man on the totempole from the standpoint of shoes, and yet he is taking orders from, say, Jeffersonville.

That was the main thing I saw. I, personally, think it was better than any of the other services in this respect. Now, I could almost conversely say something very good about all the other services because I saw them at work too. On this particular point, however, I think QMC certainly was tops. I am speaking for myself only when I say that.

COLONEL SMITH:

They had a gradual evolution and did a good job; there is no doubt about that.

A STUDENT:

As an example of this competitive spirit we'll say, Birmingham, for instance, lost a certain commodity to General Armstrong's district in Chicago by virtue of not being able to meet the schedule, by virtue of high price, or for whatever reason. All right. A lot of equipment--and spare equipment, if you please--would be released. And yet, they would release that stuff in Birmingham over our dead bodies, almost. That is the attitude. They tended to hoard that stuff.

COLONEL SMITH:

You do not need to qualify that.

GENERAL ARMSTRONG:

Now I should like to say a word about the geographical distribution because I think it is now of more importance than ever before. You may be interested to know that, as a matter of fact, districts like Chicago, New York and others carried on decentralization. For example, the load in Chicago grew so great that it was absolutely impossible to handle it efficiently. Since it was all concentrated in the Chicago office, I set up sub-offices in Milwaukee, Peoria, South Bend, Fort Wayne, St. Paul, Minneapolis, and various other places. Through those offices, which grew to be very large offices in themselves, we carried on a very successful decentralized operation.

It seems to me, gentlemen, that in the Atomic Age, as Dr. Rosinski pointed out so clearly yesterday, the necessity for geographical distribution and dispersion is of such vital importance that the setup which we recommended before the atomic bomb--I was on a committee on the post-war organization of Ordnance, about two years ago, in which we recommended there be set up organizations similar to the Detroit Office in order to

decentralize--I say that, in the Atomic Era, the necessity for that is greatly increased. We must all think about the danger involved in having all our Government concentrated in one place. It seems to me the Government itself must ultimately be decentralized.

Colonel Smith, I want to thank you on behalf of the class for an excellent analysis of the importance of looking at this problem from the point of view of geography, commodities and functions. It is very illuminating to the class. We appreciate your being with us this morning.

Thank you very much.

(26 February 1946--200)