

RESTRICTED

715

COORDINATION OF PROCUREMENT UNDER THE
NATIONAL SECURITY ACT AND
PROCUREMENT BY THE DEPARTMENT OF THE NAVY

16 November 1948

CONTENTS

	<u>Page</u>
INTRODUCTION--Major General Arthur W. Vanaman, Commandant, Industrial College of the Armed Forces.....	1
SPEAKER--Rear Admiral Morton L. Ring, Vice Chief of the Office of Naval Material.....	1
GENERAL DISCUSSION.....	15

Publication L49-44

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D.C.

RESTRICTED

716

COORDINATION OF PROCUREMENT UNDER THE
NATIONAL SECURITY ACT AND
PROCUREMENT BY THE DEPARTMENT OF THE NAVY

16 November 1948

GENERAL VANAMAN: Gentlemen, we have learned much about procurement, the difficulties of procurement, and the wheels within wheels, as it were, of procurement in the Army and in the Air Force. Today we have an opportunity to learn of procurement in the Navy and the coordination of procurement.

The Industrial College of the Armed Forces is very proud of our speaker as another graduate who has rendered outstanding service to his country. Admiral Ring is a graduate of the Industrial College and also served on the staff and faculty. We welcome back to our lecture platform the Vice Chief of the Office of Naval Material, Rear Admiral Morton L. Ring. Admiral Ring.

ADMIRAL RING: General Vanaman, ladies and gentlemen: It is a real pleasure to be back with you. I told General Vanaman and Colonel McKenzie that I was not so sure but that my speech might establish a record for brevity. It is not too long. But, truly, I shall enjoy trying to answer the questions that you may have at the end of my talk. If I am able to stimulate your thinking to the extent that you want to ask questions, please don't hesitate to call on me.

Last year I spoke on substantially the same subject, but in today's talk I will endeavor to cover the current status of coordination and, where possible, will avoid duplication of last year's lecture. I mention last year's speech only in the event that some of you may be inclined to obtain further information concerning my subject. Today I intend to start with a general consideration of coordination, the National Security Act and its background, how we go about planning for coordinated procurement, our operations so far under the act, and some of the problems we are encountering. In this way I hope to acquaint you with the situation in procurement as it is today. The second part of my speech will be devoted to procurement in the Navy: the organization and functions of the Office of Naval Material and of the procurement bureaus and some of the latest and more important developments in the field of procurement. I will also mention some unresolved policy differences between the Departments.

"Coordination," I think, is one of the most loosely used and misused words in the English language. I actually looked up its definition and found, according to Webster, that "coordination" is the act of bringing into common action or condition, the harmonizing, of something. Thus, by "coordination of procurement" we mean the bringing into common action, the harmonizing, of procurement policies and procedures, where possible, among the three Services.

It is rather easy to talk of coordination and to recommend coordination, but the actual task of coordination is a very difficult day-to-day operation. It can be conceived at planning levels, but it must be executed--and please remember this--at operating levels. Its execution at the operating levels is the more difficult, but it pays off in dividends. It cannot be achieved by merely decreeing, "Let there be coordination."

I say that coordination of procurement is a difficult day-to-day task. Possibly the easiest way of bringing the Services into common action is to remove the differences in their basic procurement laws and statutes, their policies, and their procedures. This assumes, of course, that the final decisions are the best ones. These differences have been evolved by the Services over their years of existence, each evolution being based on the different needs and conditions under which each Service has operated. Some of the procedures and some of the differences are still necessary, some have been rendered obsolete, and others could be used to advantage by the Service which does not possess them. For example, the Naval Stock Fund is one such difference. The Congress, many years ago, authorized the Department of the Navy to operate a revolving fund for the purpose of purchasing certain supplies at the most advantageous market prices, holding them in stock until needed for issue, and subsequently charging a pertinent, direct bureau appropriation for their use. Last year, in the question period that followed my talk, General McKinley was quite enthusiastic about how nice it would be for the Department of the Army if such common-use, commercial-type items as typewriters could be financed by the Army by means of such a fund. I understand that the constitutional lawyers say it is contrary to the Constitution for the Army to do it. I don't know why, because I am not a lawyer, but I do think that that simple device of a revolving fund permitting large-scale, timely entry into the market for common-use items is a good plan.

Implicit in any discussion of coordination is the assumption that coordination is desired. It must be desired by the highest and by the lowest echelons of the Services. It is not something which can be obtained by forced growth. Everybody affected by it must be convinced of its merit, and all the rest will follow in due course.

Before going further into a discussion of coordination, let us take a brief look at the National Security Act and how it came into effect. I should like to give you some of the background which I believe led to the passage of the act.

As most of you know, during the early days of World War II there were many instances in which the then two Departments competed for the same items. In some cases this competitive bidding resulted in price increases and confusion among the companies producing the goods. In many instances business well beyond its capacity to produce was placed with certain companies, while other companies were closing for lack of orders. That, in wartime, is really a situation that is horrible to contemplate.

Not only does it result in--and we had them during the war--so-called distressed labor areas from which people migrate in droves, but we would have such areas as Hartford, Connecticut, where there was no labor, there was no housing, there was no transportation, and there was no power, but where a surfeit of orders was being placed. Industry complained that it was encountering difficulty in the orderly scheduling of production. Industry didn't have to complain; we knew it. As the war progressed, however, the Services and industry were able to iron out many of these early difficulties. The Priority System, the War Powers Acts, and the Controlled Materials Plan were largely instrumental in making this coordination possible.

At the war's end, in considering the type of organization and the procurement laws which would be desirable to have for effective operation of procurement, numerous methods--some good, some bad--were proposed. At this same time pressure was being brought from both within and without the Services to merge the Services and to create a Department of Air Force equal in status to the Department of the Army and the Department of the Navy. In the discussions and hearings held on this subject, many extravagant statements were made. You may not agree with my use of the word "extravagant." That is my opinion. For example, it was claimed that billions of dollars would be saved in procurement if the Services were merged.

Few people were aware that coordination of procurement within the Services was not a new thing. Ordnance materials have been bought by the Army for the Navy and, conversely, by the Navy for the Army since World War I, with increasing tempo up to the present date. Long prior to World War II the Navy Bureau of Aeronautics and the then Army Air Forces, through the instrumentality of the Joint Aeronautical Board, procured for each other many items of aeronautical material. As only one example, all Pratt and Whitney products needed by both the then Army Air Forces and the Bureau of Aeronautics were procured on Navy contracts because Pratt and Whitney was assigned to the Navy on a plant-cognizance assignment basis. I was told by a man from the Bureau of Aeronautics, as another example, that it was necessary for the Navy to have only two people at the Curtis-Wright plant. That happens to be an Air Force assignment plant. All the goods we got out of Curtis-Wright were procured by the Air Force. Our people were there simply for the purpose of passing the necessary papers through. During World War II, food and lumber--both very important items dollar-wise--were secured through coordinated procurement. Eighty per cent of the Navy's and all of the Army's food requirements were bought by the latter's Quartermaster Corps. Lumber was purchased by the latter's Corps of Engineers. We had the very successful operation of the Quartermaster Corps duck pool, in which all requirements for cotton duck were funneled into the office of the Quartermaster General and contracts placed by him.

The outcome of all these discussions and considerations was the National Security Act of 1947, which provided, among other things, for unification but not merger and for further coordination of service procurement. The act sets forth the basic policy relating to coordination of procurement under which the Services are now operating. This act further states that it shall be the duty of the Munitions Board, under the direction of the Secretary of Defense and in support of strategic and logistic plans prepared by the Joint Chiefs of Staff, to coordinate the appropriate activities within the National Military Establishment with regard to industrial matters, including procurement plans of the Departments and agencies comprising the Establishment; to recommend assignment of procurement responsibilities among the several military services and to plan for the greatest possible allocation of purchase authority of technical equipment and common-use items on the basis of single-Department procurement; and to make recommendations to regroup, combine, or dissolve existing inter-Service agencies operating in the field of procurement in such manner as to promote efficiency and economy.

In order that the Munitions Board may take appropriate steps to eliminate unnecessary duplication and overlapping of effort in the field of procurement, the Secretary of Defense has delegated to the Board the authority to make final decisions of the allocation of procurement responsibility among the three Departments of the National Military Establishment.

Now let us return to a consideration of how one obtains coordination. First, of course, there must be planning. What type of planning? In this area are included the laws and statutes and the policies and rules governing procedures. You all know that Public Law 413 (Armed Services Procurement Act) was passed by the 80th Congress. This law, which was recently discussed here by the Assistant Secretary of the Navy, the Honorable Mark Edwin Andrews, who, by the way, played a major role in securing its enactment, gives the Services, for the first time, uniform procurement legislation.

The next step in making coordination easier is to establish, where possible, uniform procurement policies among the Services. I say "where possible" because in many cases the different needs and conditions under which the Services operate may make it impracticable to have completely uniform policies or procedures.

Since early this year there has been in existence an inter-Service ad hoc committee which has been working long and hard on the drafting of the Armed Services Procurement Regulations. Half of this job has been completed, and the remainder will be finished early in 1949. The ad hoc committee utilizes task subcommittees of operating inter-Service personnel to draft the various sections of the Regulations. These regulations will provide for more nearly uniform policies in the fields of finance, purchase, contract administration, inspection, pricing, and so on.

Paraphrasing, let me say here that every time I speak of the formation of a committee you should remember that, so far as I know, nobody has any loose people. I think it is probably a healthy thing that the only way we can get anything done among the three Departments is to impose upon the people who must live and suffer under the resulting document, the responsibility for its initial preparation. I think that is important. We have no group of experts--I know this is true in the Navy--who have nothing to do but sit down and form committees. Jokingly, we say that so and so is CDO (committee duty only), and it is almost that bad in some cases; but practical people who have to live and work under the resulting document are usually charged with the responsibility for its preparation. I think we get better documents that way.

Each Department will, of course, draft its own procedures manual under the Armed Services Procurement Regulations, and those manuals will reflect certain differences in actual structure of the Departments. The Department of the Army has its procurement districts. We do not have the counterpart of that. We are building up, as I will touch upon in a few moments, a type of control-point installation which will, in a measure, approach the procurement-district situation; but it is an organization that is going to be much more tightly controlled from Washington as regards policies, than are the districts.

Leaving the area of planning for coordination, we come to a consideration of the various methods of operating under coordinated procurement. Three principal operating methods have been developed. The first we call "collaboration of buyers," in which the contracting officers of each Service work in adjacent offices. There they are able to exchange information so that they may go out to trade at the same time. Under that situation, each is responsible for his own invitation to bid and for the resulting contract.

The second method is a joint-buying agency staffed by the participating Services and responsible to those Services. We have two examples of that. One is the Armed Services Medical Procurement Agency in Brooklyn, New York, which buys all the medical supplies and equipment for the three Departments. The other is the Armed Services Petroleum Purchasing Agency, which operates here in Washington and is a jointly staffed organization.

The third method of procurement, and the one which the statute directs we use to the greatest extent practicable, is single-Service procurement, in which all the requirements of the three Departments for a given commodity classification are bought by one Department.

During the hearings on merger and on unification which I have previously mentioned, single-Service assignment of procurement came in for much discussion. Proponents of the system claimed many advantages were possible under its use. It eliminated competitive purchasing; it was efficient and economical; it required only a minimum of reorganization

and reorientation in order to set up the administrative procedure necessary to accomplish this type of procurement; and, basically and most important, it provided a single point of contact for industry, which permitted industry to better plan its production. There were opponents of single-Service procurement who claimed that its advantages were often theoretical and were not always possible of being realized. They doubted that it would increase efficiency or result in more economical operation. They claimed that in many instances additional personnel would be required. In the case of technical items--and that was probably the hardest hurdle to overcome--it was very forcibly stated that the development of sources of supply and equipment would be adversely affected and the control of technical personnel responsible for the final development of the items would be lessened.

There were few facts or statistics available on which to predicate a decision. It would be ideal if we could test the different methods of procurement for each commodity and could then measure the results expected to be obtained under each method. From this test we could conclude, and logically conclude, which is the better form of procurement. However, data of this nature are not available, and in each case the commodities and industries and organizations are so different that what might hold true for one commodity might not hold true for another commodity.

In order to carry out its assignment under the National Security Act, the Munitions Board has established a Procurement Policy Council composed of one member and one alternate from each Department. The Army member of this Council is Major General Daniel Noce, who recently relieved General Orval Cook. General Cook is an Air Force man who was on loan to the Department of the Army. General Noce is a long-time Army man. He is Deputy to Lieutenant General Aurand, who is the Director of Logistics for the Department of the Army. The Air Force member is Major General Powers--"Pop" Powers. "Pop" is Deputy Chief of Materiel under Lieutenant General Craig. I have been nominated as the Navy member and, as you know, am the Vice Chief of Naval Materiel. The alternate for General Noce is Jack Christmas, Brigadier General, an old Ordnance man; for the Air Force, Brigadier General Kessler; and my alternate is Rear Admiral Braine, who is in the Office of Naval Materiel and in charge of our Production Division.

The Council studies the various commodity fields, determines which fields require attention, initiates action and works with representatives of the Departments to develop such rules of procedure as are required under these policies, and then makes recommendations to the Munitions Board on the assignment of purchase responsibility.

The people whose names I have given you--Noce and Christmas, Powers and Kessler, Braine and Ring--are certainly average citizens possessed of only that amount of information that a long period of service has given us. We have no crystal balls. We don't know the best way to make a purchase assignment. Because, I think, we are smart enough to realize how little we know, we never attempt, or seldom attempt, to make arbitrary decisions.

We made some and they didn't work. That was done in an effort to get something done quickly.

Our normal procedure is to establish task committees composed of representatives of the technical services, of the Navy bureaus, and of the Department of the Air Force Air Materiel Command to sit down and recommend to us what they think ought to be done. We have to have some regard for personnel limitations in each Department. These committees have worked long and hard. I think you gentlemen would be heartened by the number of times that the Procurement Policy Council receives a unanimous recommendation from the working representatives of the Departments.

We have a policy that works this way: If a technical service, bureau, or the Air Materiel Command does not agree in the assignment and it comes up to the Procurement Policy Council as a split decision from the task committee, we then extend to the chief of the technical service, of the bureau, or the appropriate representative of the Air Materiel Command a chance to be heard by the Procurement Policy Council. We have not yet made a split recommendation from the Procurement Policy Council to the Munitions Board on purchase assignments. We operate on the theory that at some level or other a decision has to be made. Take the case of automotive equipment. I mentioned to General Vanaman and Colonel McKenzie that I made myself a very unpopular man in the Navy by agreeing that the Ordnance Department of the Army would buy Navy commercial-type automotive equipment. Since that decision was made some time ago, I have heard from the Marine captain assigned to the Detroit Ordnance District and from an Irishman by the name of Cassidy, who is the P-4 or P-5 engineer, that they did not realize they could get such fine treatment from any outfit as they are getting from Army Ordnance at Detroit.

I would like to tell you about a homely little incident that occurred recently, because I think it spells the difference between the success and failure of these assignments once they are made. One of the best friends I have in the Army is Major General A. B. Quinton. General Holman knows him. Some of the others here probably know him; certainly the Ordnance people ought to know him. "Bix" and I were at the Industrial College together from 1929 to 1933. We are close friends. He called me one day and said, "The Navy needs 75 ambulances. We are going out for 15. Your specifications are somewhat lengthy. You describe what you want in 26 pages; we do the same thing in 6 pages. If I guarantee that I will get you the ambulances you need, won't you agree to use our specifications?"

It was a very persuasive argument, but I was smart enough not to bite on Bix's first offer. I said to him, "Let me call you back."

As a result of the call-back, two men--one from our Medical Service and one from the Bureau of Yards and Docks, where the automotive engineers are--went over to talk to Mr. Charlie Hiller, the civilian engineer of the Ordnance Department. Out of the conference came a final resolution of the

RESTRICTED

724

problem. I don't know the length of the resulting specification. I have been told that the Army has a better specification. I think the result was about 9 pages. We saved 17 pages of mimeograph paper on each invitation to bid that went out.

I firmly believe that we can succeed only as people get to know each other--I hope to the extent of calling each other by their first names or their nicknames--and only as the purchasing people realize that there is imposed upon them a tremendous responsibility for doing at least as good a job for the requiring Department as they would do for their own people. They should try to do what the Army Market Service of the Quartermaster Corps did for the Navy during the war. I know of many instances where the Quartermaster Army Market Service in Chicago did a better job for the Navy than it did for its own people. That is pretty good service. I don't know of any better.

Now we will get back to the speech.

The Procurement Policy Council attempts in each case to obtain the views of service personnel in regard to assignments. It feels that operations under the assignment will be much smoother if the three Services are in accord with the recommendations made.

We know that, as a result of purchase assignment, there must remain in each Department those procurement authorities and responsibilities which are essential to the maintenance of the effectiveness of its combat forces and that we must maintain organizations capable of performing assigned current procurement tasks and capable of rapid expansion to meet assigned wartime tasks. We do not regard the purchase function of procurement as the master but rather as a tool to serve the operational and organizational needs of the Departments for which it is supposed to work. Any procurement system established must make adequate provision that the needs of the requiring Departments will be satisfactorily met, either through representation in the purchasing organization or by other appropriate means.

We make our recommendations for purchase assignment in accordance with the classifications established in the current issue of "U.S. Standard Commodity Classification." This does not mean that we have to follow that book rigidly. We can split major groups whenever sound judgment and practical considerations indicate the desirability of doing so. So far as practicable consideration of assignment is limited to end-items, with the understanding that assignments of components will generally follow those of the end-items.

The Procurement Policy Council decides nothing. It simply recommends to the Munitions Board. Each purchase assignment recommended by the Council is taken up at a meeting of the Munitions Board, which is composed of, as I am sure you know, Mr. Donald Carpenter, the Chairman; Mr. Barrows,

RESTRICTED

the Under Secretary of the Air Force; Mr. Kenney, the Under Secretary of the Navy; and Mr. Gordon Gray, the Assistant Secretary of the Army. These people approve the assignment or disapprove it and send it back to the Procurement Policy Council for more work. Following approval, the implementing decision is made.

Purchase assignments leave with the requiring Departments responsibility for (1) stipulation of quantitative and qualitative and delivery requirements; (2) budgetary justification and control of funds; (3) research and development to meet its requirements; and (4) distribution, storage, and issue.

The whole subject of distribution, storage, and issue, of course, is a separate matter. There is a so-called Distribution Policy Council of the Munitions Board which is trying to iron out differences in that field. That is not a function of the Procurement Policy Council.

The procuring Departments get responsibility for (1) purchasing; (2) contract administration; (3) arrangement for inspection; (4) arrangement for transportation; (5) sponsorship in the development of joint military or Federal specifications, when possible (I tried to give you an example of this in the case of Quinton's telephone call to Ring); and (6) developing recommendations as to standardization.

I said before that the implementation of a purchase assignment decision is something that has to be done by the operating personnel who are actually engaged in the procurement of these items.

Numerous differences still exist in the fiscal and budgetary policies and procedures of the Services. The Services differ in basic methods of financing contractors, in the quarterly percentage expenditure requirements of procurement funds, and in the exchange of funds. There are dissimilarities in the methods of making progress payments. Different forms are still used in the administration of contracts. The Services have different inspection procedures, and their specifications differ.

The procurement assignment program is well under way but only a few of the assignments which actually have been made in the last six months have been fully implemented. Perhaps an examination of the hand-tool assignment program will illustrate the reason for a lag in implementing these programs. It took several months after assignment to indoctrinate the personnel concerned. A gradual change-over period is required. Requirements already in the mill have to be processed. Because of the expected increase in volume, the Navy Bureau of Supplies and Accounts, which is responsible for the procurement of this commodity, has had to expand its organization. Each of the Services has had to become more intimately acquainted with the forms, procedures, and personnel of the other Departments. Knowing the man who is doing the job is a first requisite for the requisitioning office if it expects to get service.

Some of the problems remaining will be removed once the Munitions Board Cataloging Agency, the Munitions Board Standards Agency, and an Inter-Service Material Inspection Committee have agreed on uniform nomenclature, uniform specifications and standards, and similar inspection procedures and assignment of inspection functions. The Munitions Board agencies are manned, of course, by working personnel from each of the Departments.

You might well ask me at this point, "If you tell us of so many difficulties hampering the implementation of any purchase assignment, why don't you wait until you have resolved some of those difficulties before making the assignment?" That is a pretty good question. I believe that the best answer to it is that the quickest way to bring into the open our many procedural differences is to make the assignment first. Since we have decided on utilizing to the fullest extent possible the system of single-Service procurement, the change-over, I believe, should be made now; and we should then get to work on the resolution of differences so that smooth operation under the system can be obtained as soon as possible. There are many things on which you can put your people to work. We find that when a purchase assignment has been made, there is a tremendous effort on the part of the people concerned to resolve all differences regarding that particular commodity group. When we come to the question of which came first, the hen or the egg, or, in our case, the purchase assignment or the resolution of differences, we in the Procurement Policy Council agree that making the purchase assignment is the first thing to do.

The best proof, I think, of whether coordinated procurement is paying off in dividends to the Services is the effectiveness of its operation. I don't know of anyone who wants coordination just so that he can claim to have it. We are going to make an attempt soon to check on the administrative savings, if any, and the efficiency of service rendered under the change in type of procurement. In connection with savings, an inter-Service committee has drafted a questionnaire which will be forwarded to the Services for the furnishing of information in connection therewith. A similar study of the effect on industry will be made at the same time by the Munitions Board staff. When these studies are completed, I hope we will have sufficient information to be able to say we are effecting a real saving--and I want to have it as big as possible.

Unfortunately, it is never going to be possible to accurately measure the savings achieved by single-Service purchase assignment as opposed to multi-service buying. The only way we could do it would be to go out to a manufacturer and say, "We now have a single-Service purchase assignment. How would you have bid if this had not been a single-Service purchase assignment?" The manufacturer will laugh at you.

Our real area of saving in single-Service purchase assignment, in my opinion, is the fact that, for the first time in many commodity fields, the total National Military Establishment requirement for a given commodity

will be presented to industry and the buyer will be able to say, "For this three months', this six months', or this twelve months' period, here is the grand total of requirements. Sharpen your pencil and give us a bid." That is good buying.

We hope to be able to obtain more complete information regarding the effectiveness of the old and the new methods of procurement. These data will concern the effect on the military responsibilities of the Services. Are they receiving the right quantity and quality of supplies at the right time? General Christmas has emphasized the point that the first duty of a service organization is to fulfill the requirements of its operating forces. Do we find our research and development being impeded? Has control of procurement been lost? Are the new procedures inflexible and complicated? On the good side: Are we actually writing fewer contracts? Is industry better able to schedule its production? What examples can we find of price decreases due to the change?

I am convinced that the advantages outweigh the disadvantages, and I hope soon to have more adequate proof of this statement. I still don't expect to show that we have saved many billions of dollars, however. What we do expect is an orderly procurement system capable of serving our military organizations at minimum cost.

I promised to make this a short speech, and, as usual, I am rambling too long. I will try to make this second part shorter.

I will now try to cover the organization for procurement in the Navy, particularly as it differs from that in the Army and the Air Force. I will also try to mention a few of our still unresolved problems.

In the Navy, procurement authority is vested in the bureau chiefs. I don't want any Marines present to feel badly about my calling the Commandant of the Marine Corps a bureau chief, but, for the sake of clarity, let's call them all bureau chiefs.

The following bureaus do all their buying in Washington: Bureau of Aeronautics, basically in its airframe and engine contracts and in the initial lot of spares going with them; the Bureau of Ordnance, which, of course, buys guns, ammunition, fire-control equipment, and such material as that; the Bureau of Ships, which is our contracting agency for vessels, main propulsion equipment, and certain of the large and very important types of shipboard equipment.

The following bureaus and offices buy in Washington and at field offices: Naval Research, the Marine Corps, the Bureau of Supplies and Accounts, and the Bureau of Yards and Docks. The Bureau of Yards and Docks is our counterpart of your Corps of Engineers in the Army and is principally concerned with public-works construction contracts. The

RESTRICTED

Bureau of Supplies and Accounts, the closest thing we have to the Quartermaster Corps of the Army, is our general, common-use-item buyer and in its own field handles, under our supply system, much of the spare-parts buying for the technical bureaus. It handles clothing and is the requiring agency for Navy subsistence.

Medicine and Surgery, as I have told you, buys only in the field through the joint-buying agency, the Armed Services Medical Procurement Agency.

While I recognize that this is a talk on procurement, I want to touch just for a minute on our Navy supply system, which I mentioned before. We have established a supply system which finds us with "control points" in operation. The official title is "Supply-Demand Control Point." These control points determine requirements, using, of course, all the information they can get; they procure, and they direct distribution of Navy material under their control. The whole system can perhaps be explained by a brief discussion of the relationship between the Bureau of Aeronautics, the Bureau of Supplies and Accounts, and the Aviation Supply Office in Philadelphia. As I have already indicated, the Bureau of Aeronautics, in accordance with programs approved by the Chief of Naval Operations, buys airframes and engines and initial spares. The Aviation Supply Office, under management control of the Bureau of Supplies and Accounts but with adequate technical advice furnished by aviation engineering personnel, determines requirements and procures the spare parts needed for maintenance. So, also, the Ships Parts Supply Center, the Ordnance Stores Office, and the Yards and Docks Supply Office are field functions serving under both the Bureau of Supplies and Accounts, for management control, and the so-called technical bureaus involved, for technical engineering assistance. The Bureau of Supplies and Accounts is alone concerned in the General Stores Supply Office ("general stores" being our term for the some 250,000 housekeeping items we need) and in the Clothing Supply Office.

Navy procurement is financed both by object appropriations, which would be for ships, aircraft, and public-works construction; by general appropriations directly under the bureaus, such as for maintenance of ships, ordnance, and so forth; and by revolving funds, which funds are controlled by the Bureau of Supplies and Accounts. I have already mentioned one of our funds, the Naval Stock Fund, which is used to finance procurement of common-use items, with credits to the fund coming due when issues for final use are made. At that time, of course, there is a charge to one of the direct bureau appropriations. There are other revolving funds, but I think that reference to the Naval Stock Fund is sufficient.

In the Office of Naval Material we are definitely concerned with procurement. We enunciate procurement policy and check for compliance with policy. All research contracts in excess of \$50,000 and all contracts in excess of \$100,000 must be approved in advance of execution as

RESTRICTED

to business aspects by the Office of Naval Material. Approval as to legality and form of contracts is secured through the Office of General Counsel. He is a civilian and is separate and apart from our Judge Advocate General. The Judge Advocate General of the Navy, in general--this is not the limit of his duties--is the military law adviser of the Secretary. The General Counsel is the procurement legal adviser of the Secretary. The General Counsel works with the Office of Naval Material but is not subordinate to us. His subordinates work in the contracting bureaus.

Just as I feel that effective coordination of procurement between Departments can be achieved only if operating personnel believe in the system and want to make it work, so also do I feel that effective Navy control can be had only if policy is generated close to the bureaus and their problems. I have a great aversion to the "Ivory Tower" control method whereby you write a check and say, "Don't bother me." I don't think it works.

Policy coordination with the Army and the Air Force must be achieved. This is a function of the Office of Naval Material. We have not yet resolved all of our policy differences. Let me cite a few:

1. The authority of contracting officers in relation to cost inspectors (in the Army you call them auditors) and to material inspectors. In the Navy we use a system of functional specialization, with more authority being vested in the inspectors than is the case in the Army and the Air Force. We like our system of checks and balances. Our friends in the Pentagon and at Wright Field prefer to let the contracting officer receive recommendations but vest in him the final authority to make decisions.
2. The question of approval of increases in wage structure under cost-type contracts. The Army and Air Force have proposed the use of a Departmental Wage Board for final approval of wage increases, this in order to hold down labor costs in contracts. Labor costs are, of course, a tremendously important element in contracts. We share their view with regard to the necessity for holding down costs but are worried about the implication of establishing a departmental board for final approval of wage-increase agreements. We don't want to subject the Departments to even a suspicion that we are trying to enter into management-labor wage conferences. I don't think we can afford to. Obviously, I am giving you the Navy side of this argument much more than I am giving you the arguments of the other two. I am not trying to point up these problems by saying that the Navy is right. I am simply giving you very briefly some of the things on which we have not yet reached agreement.
3. The Navy and the Air Force differ on the policy of using cost-plus-fixed-fee contracts for large-scale production jobs. We feel that these contracts have the least incentive to manufacturers to hold down costs

and that they are very expensive to administer. The expense results from the necessity for having a very large and highly paid cost-inspection service. At present we have only four contracts of this type on production jobs. The Air Force, for many very sound reasons--and I am appreciative of those reasons--has many more.

4. We have not yet resolved our differences policy-wise on the percentage of fee in incentive-type contracts. We feel that on a first-run production job the fee should be kept down fairly low. As we get into the fourth- and fifth-run production job on an incentive-type contract, where the manufacturer has been able to cut down his production costs, as a reward to him for saving the Government money--and that is what is done in an incentive-type contract--we feel that he ought to have a slightly higher percentage of fee.

I have touched on four fairly important differences. We can and we will resolve those differences. It will take us time, but we are making progress.

Planning for procurement in event of a national emergency consumes a great deal of the time of our procurement planners. Wartime controls will apply to most of the materials and services needed to produce our equipment. We must be ready to negotiate contracts under war conditions. We must continue our efforts--better I think I could have said we must redouble our efforts--to secure productive capacity sufficient to meet our estimated mobilization requirements. This is essential if we are to get production started quickly in case of need and if we are to avoid overload of orders in some areas, with a dearth of work in others.

There, of course, that much overworked phrase "small business" comes in--small business participation in government contracts. The Procurement Act says that it is the expressed intent of the Congress that a fair proportion of government orders shall go to small business concerns. The Congress failed to define what it meant by "small business," but we have a definition. The Congress failed to provide any incentive-payment plan for the small business man. It simply left it up to the Services to try to devise ways and means of getting that "fair share" (also undefined) of our business to the smaller concerns. It is a tremendously worth-while effort, both in getting them started now and getting them used to the rigmarole of government red tape that they will have to go through (we try to cut out as much of the red tape as we can, but much of it is still going to remain), so that when we come to national mobilization, we will have the greatest practicable number of people interested in government business used to government business and sufficiently dispersed so that we will not have all of our eggs, or too many of our eggs, in one basket.

There is much that we still have to do. Last year I think I said exactly the same thing. We learn a great deal as we go along in working with our friends in the other Services. I can tell you--and I mean this--that

we have made a great deal of progress in the past year. If General Vanaman or whoever is here is kind enough to invite me back next year, I think I will be able to tell you that we have made still more progress. Thank you.

QUESTION: Sir, is any step being taken to equalize the standards of procurement within the three Departments? I have in mind two examples. One is that recently the newspapers contained an item about the purchase of office furniture. In that item it was said that the Army would have wooden furniture, the Navy would have metal furniture, and the Air Force would have some other kind. Another example concerns the standards for temporary construction. The standards in the Navy are quite different from those in the Army. I was wondering if anything is being done toward having common standards for procurement.

ADMIRAL RING: You have asked a pretty broad question. Let me limit it to furniture for the moment. The Procurement Policy Council has just been turned down by the Munitions Board in that respect. We made what Captain Giles calls an "arbitrary" decision to the effect that the Department of the Navy (this was done without the advice of a task committee) would buy all furniture for the three Departments. I think that was done because Kessler and Christmas had both been in Navy quarters and found that, generally, they liked the furniture. The obvious result was: "Let a guy buy who knows how to buy good furniture." We did not realize that the Navy orders most of that furniture from the Schedule of Supplies of the Bureau of Federal Supply. It is a very pretty catalog of rugs, furniture, and things of that kind, illustrated with color pictures.

So our first recommendation to the Munitions Board was, "Assign it to the Navy." The Quartermaster General and the Chief of the Bureau of Supplies and Accounts rose in their wrath--and they should have--because we had forgotten to touch base with them. So Herman Feldman, Deputy to General Larkin, and Dorsey Foster, Chief of the Bureau of Supplies and Accounts, got together and recommended the following: "(1) Let's make no purchase assignment and (2) if we have to make a purchase assignment, let's make it to the Department of the Army, which has a buying organization. What the Navy has is a bunch of catalog readers and order placers. The Army has a buying organization and has specifications."

Therefore, the Procurement Policy Council met again and recommended to the Munitions Board that we have no purchase assignment. That apparently made the Munitions Board very unhappy because it regarded the recommendation as a walking back from our basic principle of getting ahead with coordinated procurement.

The thing is now back to us again. I think--I don't know, because I cannot speak for the others--that our recommendation is going to be that everybody order from the Bureau of Federal Supply Catalog.

732

You asked a very serious question with regard to standards of construction.

Colonel McKenzio, from his trip to the Pacific, and any of you who served there during the war knew that one of the standard arguments was, "What a frightful situation it is that the Navy eats so much better than the Army! The Navy always has beefsteak; the Army doesn't have any. The Navy has pies and pastry; the Army doesn't have any." I recall to your minds the fact that the Quartermaster bought practically all the food that went overseas to the Navy in the Pacific.

There are certain items on the Navy ration list, certain spices, shortenings, and things like that, which will permit a Navy baker to bake a cherry pie for you. These differences can and should be eliminated.

As to pork chops or beefsteaks, obviously no one could peddle six pork chops or six beefsteaks to each six men in the Pacific, because our reefer ships were not built that way. The first essential in the delivery of "fresh and frozen" to troops in the Pacific was the availability of reefer boxes ashore to receive them in bulk. We had to have bulk receipt.

Therefore, the first thing that has to be done in trying to make a soldier and a sailor reasonably and equally happy on Guam, Saipan, or any such place--and they should be made equally happy--is to resolve the point, How soon after an assault is completed do we start moving in with housekeeping items? That point has not yet been resolved. It must be resolved if we are going to have Joe Bloke, who is a soldier, and Joe Doaks, who is a sailor, reasonably happy.

You have touched on an important question, How far do we go in providing living accommodations, storage accommodations, reefer accommodations, and so on? It is a most important question, and its proper solution will have a very far-reaching effect. With all my heart, I hope that the proper solution is not reducing the people who now provide more housekeeping support down to the level of the lowest but, rather, bringing those who now provide less up somewhere near the top.

QUESTION: Will you touch a little more on the difference in the fund situation--the revolving fund and the limited-to-one-year type and so on--and whether it is possible to have the revolving fund? What can be done to make it work that way?

ADMIRAL RING: I cannot wave my law diploma at you, sir, but I heard just recently that the Attorney General now believes that it can be done for the Army. I think Congress is completely sold on (1) the necessity for the fund and (2) the fact that it has been soundly operated. I can't, for the life of me, understand, if it is true that the Attorney General now says that there is no constitutional bar to the revolving fund, why

determined efforts on the part of the Army and the Air Force won't succeed in the Congress. It will require a large initial appropriation, but once you have done that the thing is painless forever after.

I wish I could give you more accurate information on what the bars are. I know the Army has been working on the subject for a long time with a lot of competent people. Any of you who were here last year will remember the discussion by General McKinley and Admiral Buck. Admiral Buck of the Bureau of Supplies and Accounts was here; he and General McKinley had quite an argument about the revolving fund.

Everybody who knows about it wants it. I am sure that the Army and the Air Force are going to make every effort to get that type of operation.

We have a case in point right now. In respect to joint Army-Navy-Air Force standard electronic components and for electronic tubes, a very fine proposal was made to set up a stock pile not only for issue as needed within the Services, but likewise for use by the manufacturers of electronic end items. Then instead of letting their designers run riot and design a resistor here or a capacitor there--something that nobody had ever seen before--the manufacturer will have standard components available and ready for inclusion in the end items. If we buy them not only for issue within the Services as required but likewise for issue to manufacturers, we will save a lot of money and we will get a piece of equipment that is going to be easier for the people in the field, the people in the air, and the people aboard ship to keep going. But we are stopped. The Navy does not have enough money in its revolving fund to finance the whole operation. I wish we did, but we don't.

QUESTION: Admiral, about how much does this fund amount to that the Navy now has?

ADMIRAL RING: It is about a billion dollars and includes money and stores.

QUESTION: Has any consideration been given to the setting up of joint purchasing corporations in lieu of the single-Service-procurement idea, which corporations would be jointly controlled through a board of directors?

ADMIRAL RING: Are you referring to a Ministry of Supply type of operation?

QUESTIONER: Essentially that. The Government has been criticized many times in the past for failing to use the corporate device and its advantages.

734

ADMIRAL RING: I don't like any type of service function which gets so far away from the operational requirements that it can't be told definitely, positively, and effectively, "You do this at this time; and if you don't get it done, come and tell me why." I worry about the establishment of what I consider a true service function at a level beyond the control of the man who has to man the troops, fly the planes, or sail the ships.

You can set up many what I think are theoretical business advantages for the type of operation you refer to, but I think you get away from the practical consideration of why we buy anything. We don't buy supplies and equipment in the Army, in the Navy, and in the Air Force simply to go through a business operation. We must assume that we have a military demand, for the item. So the first thing is getting the right goods to the right place at the right time. Surely we must be businesslike. Surely we must try to save money. But never let business considerations or corporate-structure considerations interfere with getting what the military commander needs when he needs it. I am sold on that one.

QUESTION: Admiral, in a paper prepared by General Lutes in his former capacity as Chief of the Army Service Forces, he said that supply and procurement are inseparable and that the operating levels should be under the same chief. In the Air Force that is not practiced. I wonder what your thoughts are on that and if that ties in with common procurement by the Armed Services.

ADMIRAL RING: It is not practiced in the Department of the Navy. Rather interestingly, and just as a sidelight, the Air Force and the Navy, which, as those of you who read the papers realize, have had a considerable number of differences of opinion regarding strategic concepts and other things, are extremely close together, I find, in their concepts of the relation of procurement and supply to command. A distinguished representative of the Department of the Air Force said, in my presence, to an equally distinguished representative of the Department of the Army, "You will get a Ministry of Supply operation over the dead body of every officer in the Department of the Air Force." I got up and cheered loudly because that was the way I felt too.

In my concept of supply you determine requirements, you procure, and then you store and issue. The whole supply function, in my opinion, including procurement, reception, inspection, storage, redistribution, and final disposal, must be responsive to the needs of the military commander.

In the Navy we have a two-way split. The Chief of the Bureau of Ships is told by the Chief of Naval Operations, specifically by the Deputy Chief of Naval Operations for Logistics, "We have an appropriation for so many hunter-killer ships, so many CVB's, and so on. Proceed to

buy what you want." Admiral Carney, who is the Deputy Chief of Naval Operations for Logistics, has made that decision. That is the program. Admiral Miles, who is my boss, the Chief of Naval Material, is intimately concerned with how we buy and with the business aspects of procurement. Miles does not report to the Chief of Naval Operations. He reports to the Assistant Secretary of the Navy, who, by delegated authority from the Secretary, has control over the business aspects of procurement.

General Aurand, who, under the new Army organization, has been set up as the head man of all the technical services and is the Director of Logistics, is a combination of both Carney and Miles in the Department of the Navy. The Navy and the Air Force split with regard to the authority of the Under and Assistant Secretaries is a little bit different from what it is in the Department of the Army.

If an Air Force officer were on the stand, he would tell you that the system he uses is the best one. I am sure our system is the best one. I am equally sure that the Department of the Army considers its system the best one. We are not together on that organizational responsibility.

QUESTION: Admiral, you presented the argument in favor of single-Service procurement. I think the principal argument is that it eliminates competition in buying. You stated that some people are opposed to it. I believe one of the arguments against it is the fear that where one Service is procuring an item for itself and for the two others, when the pinch comes, its own people will probably get the preference. Have you any comment on that point of view?

ADMIRAL RING: I tried to touch on that very briefly by trying to pay Colonel McKenzie and his group a compliment and saying that the only really satisfactory type of single-Service-procurement operation is the one where the man who is buying will try to do a better job for the man who requires than he will do for his own people.

The needs of the requiring Service can be met in a number of ways. You can do it, as we are attempting to do it with the Ordnance Department automotive procurement, by having one commissioned officer and one civilian engineer actually out there to represent you. You can do it through the Army market organization. Actually in the Army Market Center at Chicago and in the branch offices throughout the field, we had people skilled in subsistence requirements and skilled in specific knowledge of what we wanted who were able to make on-the-spot decisions. The situation arises where we can't get exactly what we want. The buyer comes to our people and says, "This is all there is. Can you downgrade this specification a little bit? Can you take this?" It is possible--and history has amply proved it to me--for the requiring people and the purchasing people to get together so that the requiring people will be completely and perfectly satisfied with the end result. It can be done.

RESTRICTED

736

It takes work. More than anything else, it takes time for people to become acquainted with each other and to know the people in the opposite Service.

COMMENT: I would like to say a word or two about the Ministry of Supply. I just completed two years there myself. I think it is not quite fair to say that the services do not get what they want through the Ministry of Supply. Generally speaking, I would say that the Ministry of Supply consists of a large body of permanent civilians and a smaller body of passing service officers who serve their two or three years in the institution. I don't think that there is any question about the services getting what they want. They are there sitting on top and working side by side with the civilians. If they know their job at all, they should get what they want.

One advantage that I do see in it is that the civilians provide a permanent body that furnishes continuity, which you cannot get with service personnel if they are changing at all. In that respect, I would like to ask how you allow for continuity in your organization if it consists mainly of officers who change their appointments every several years.

ADMIRAL RING: In the Department of the Navy, sir, we try to do it by that part of the Navy to which I belong. I am a Naval Academy graduate whose eyes were not good enough to enable me to become a commissioned officer in the line of the Navy. Because I wanted to eat, I therefore joined the Supply Corps of the Navy; I am what is known as a supply officer. I have never commanded and will never command any ship, however, I have the rank and I have the pay, thank God. I am trained as a functional specialist in the doing of many of the things that your permanent civil servants do. I am not in any way decrying the value of civil servants. I know what they are, and I know what they can do. But I believe I was just a little bit more responsive to the needs of the Commander-in-Chief of the Pacific and the Pacific Ocean areas because I wore a uniform, because I had been to sea, because I was part and parcel of a commissioned group.

I think that my basic business training--with a bow to the Industrial College--the fact that I had a year as a student and three years as an instructor on the staff of the Industrial College, the fact that I have done a lot of business work in my time in the Navy, plus the fact that I have an allegiance to a cause, that I have served at sea, have made me a little more responsive; and even though the business aspects of the job may be a little less well-done, I believe that the people who needed the supplies got them a little faster and a little better.

That is a matter of opinion. I am sure that you can do it any way. But I think it is very important never to take any functional specialty and elevate it to where it becomes the master and the military commander,

RESTRICTED

who will win or lose the engagement, becomes the servant. I think it is putting the right shoe on the left foot and vice versa. I think it is the wrong emphasis.

COMMENT: Of course, the head man, the Controller of Supplies, is a serving officer in both the air side and the material side.

ADMIRAL RING: I hope you will excuse my intemperate language in condemning the Ministry of Supply. I just don't believe in that type of operation for a military service. I have to point out, of course, sir, that the senior service, the Royal Navy, rather completely disassociated itself from the operation of the Ministry of Supply because, as it said, it wanted to get its own goods. Isn't that a fair statement?

COMMENT: I agree with you there.

GENERAL VANAMAN: Admiral Ring, you have had vast experience in the supply field. Would you just take a couple of minutes to evaluate your time as a student at the Industrial College in relation to the experiences you have had in supply?

ADMIRAL RING: I suppose that a confession is always good for the soul. During World War I, I served as supply officer of the U.S.S. Florida, which was a part of Admiral Beatty's Grand Fleet. Admiral Rodman was our squadron commander. Every once in a while from somewhere a supply ship would arrive with some goods. Sometimes it was what we needed; sometimes it wasn't; but it was something and we were always glad to get it. Frankly, I didn't know--and I mean this--that there was anybody by the name of Mr. Barney Baruch or any such thing as his War Industries Board. I didn't know anything of the operations back here in Washington--what it was necessary to do to control transportation, to control taxes, to control financing of new plants, and so on. Quite frankly, it was not until November 1929, when I went to the Industrial College, that my eyes were opened to the effect of a major war upon the Nation's economy. I then realized what had to be done in order to exercise those controls.

I went back to the Navy Department for about six months after graduation from the Industrial College. I was put in charge of the Bureau of Supplies and Accounts War Plans Division. It was completely unintegrated with any of the war plans divisions of the other bureaus. In the Office of the Chief of Naval Operations, where that interest should have been very keen, there was little if any coordination. I think most of the Navy had a basic concept that "if any trouble arises, the Navy is the Nation's first line of defense; so wouldn't we be smart to let the Assistant Secretary of War, under authority of the National Defense Act, Section 120, go ahead and do the planning? We would get the goods when the trouble started." I had little to do with improving the Navy plans system because I lasted only six months in that job.

Colonel McCain was kind enough to ask me to come back as an officer on the staff of the Army Industrial College (ICAF now).

In the next three years on the staff I learned a great deal about control of a lot of things, and my eyes were opened to the impelling need for a study of history as it related to the various methods of control that had been tried under different circumstances. This is not on the materials side, but I commend to you a study of what happened to the German Naval Air Force under the Reichsmarshal. If the German submarines had had more naval air support to spot convoys for them, I am firmly convinced that they would have sunk more ships. History, as it relates to what people did under a given set of circumstances, is a tremendously interesting study. It isn't perfect. You cannot say that because this nation did this, we must do it, or conversely, because this nation did this, we must not do it. But it will help you--and it did help me--in being subjected to forced feeding in the way of historical education, to do a great deal of thinking on what you would recommend be done if a certain set of circumstances came up.

On the national-economy control side, General, to get away from this long speech and try to answer your question specifically, it opened my eyes to a vast field of effort in control of the national economy in time of stress that I didn't know even existed before. I am very happy that I was privileged to go to the College. I am serious about that.

GENERAL VANAMAN: Admiral Ring, we thank you very much for your extremely stimulating lecture and for your very wise observations.

(8 December 1948--450)S.