

PROCUREMENT BY THE BUREAU OF FEDERAL SUPPLY

3 December 1948

CONTENTS

	<u>Page</u>
INTRODUCTION—Brigadier General J. L. Holman Deputy Commandant for Education.....	1
SPEAKER—Mr. Clifton E. Mack, Director of the Bureau of Federal Supply.....	1
GENERAL DISCUSSION.....	12

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## PROCUREMENT BY THE BUREAU OF FEDERAL SUPPLY

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GENERAL HOLMAN: No study of the broader aspects of procurement at the Industrial College would be complete without an understanding of the responsibilities and procedures of the Bureau of Federal Supply.

We are very fortunate in having with us this morning Mr. Clifton E. Mack, who has been the Director of that Bureau since July 1940. Mr. Mack has addressed the College in previous years and his Bureau has always responded splendidly to any request from the College for information and guidance in our study of procurement problems. I feel certain that everything Mr. Mack has to tell us this morning will be of great value in our understanding of large-scale procurement operations.

It is a great pleasure to introduce to you and to welcome to this platform again, Mr. Mack.

MR. MACK: Mr. Chairman, gentlemen: I notice from the letter which was sent to me that there are certain points you would like to have discussed. They cover quite a broad field: First, organization; secondly, the Federal Property Act; and finally, the request for a discussion of the advantages and disadvantages of a single agency for all Federal Government procurement of civilian and military supplies.

That is a pretty big order. For that reason, I rather think there will be a good many questions. I will be glad to have them. While I have a prepared statement, it might be well if I skipped some of it so that we will have more time for discussion.

A number of things have happened in the past two or three years, based very largely on our experiences during the war, that indicated the need for bringing up to date the Federal procurement system. During the war the Procurement Policy Committee, composed of the Army, the Navy, the W.P.B., Maritime Commission, O.P.A., and ourselves, gave considerable thought as to what might be done to carry through to the postwar period those practices which during the war period were found to be desirable.

Those discussions laid the basis for what is now your Armed Services Procurement Act. That is an excellent piece of legislation. We had participated in the original planning but withdrew at the time of the hearings because we felt it was more important that the Armed Services should have that authority first. We intend to submit separate legislation calling for substantially the same authority. There are some differences, which I will come to when I discuss that matter.

First of all, in order that you will have a basis for the discussion, I think it is pretty important that you know quite clearly what was intended that should be done in terms of centralized procurement at the time the then Procurement Division of the Treasury Department was established the purpose of its organization; what was contemplated; what has been done and why; and, finally, what we are doing today and what we think should be done.

So you can see that that is a sizable order, isn't it? But, first of all, I think I will have to refer specifically to some of the language in the basic legislation; this discussion will be based very largely on a thorough knowledge of the basic authorization.

At that time, under the so-called 1932 Reorganization Act, it was proposed as a part of the reorganization of federal agencies, that something should be done to bring together the then separate, and independent groups which had responsibilities concerned with supply.

As a result, the President issued Executive Order 6166. However—and I want to make this very clear—the Executive order was issued as a result of the authority contained in the basic reorganization statute, that is, 47 Stat. 1517. Again and again we hear reference to the basic authority of the Procurement Division (today the Bureau of Federal Supply) as Executive Order 6166. True; it is an Executive order that spells out what is to be done. That Executive order, however, has the force and effect of a statute. That is a rather important point.

The purpose of this Executive order was to merge several functions having to do with supply. It started out in this fashion:

"The function of determination of policies and methods of procurement, warehousing, and distribution of property, facilities structures, improvements, machinery, equipment, stores, and supplies exercised by any agency"—

that is, any agency of the Federal Government—

"is transferred to a Procurement Division in the Treasury Department."

And it provided further that the Office of the Supervising Architect of the Treasury Department would be transferred to the Procurement Division, with certain exceptions as to the responsibilities then under his supervision.

Then it went on to say:

"In respect of any kind of procurement, warehousing, or distribution for any agency the Procurement Division may, with the approval of the President; (a) undertake the performance of such procurement, warehousing, or distribution itself, or (b) permit such agency to perform such procurement, warehousing, or distribution, or (c) entrust such performance to some other agency."

In other words, do the job, delegate the job completely--do part, delegate part--according as it may be deemed desirable in the interest of economy and efficiency.

It goes on further to say:

"When the Procurement Division has prescribed the manner of procurement, warehousing, or distribution of anything, no agency shall thereafter procure, warehouse, or distribute such thing in any manner other than so prescribed."

And, in effect, it said that once the determination had been made by this central supply organization as to how the procurement should be accomplished, that would then be the method of doing it.

The order spelled out further that the execution of work now performed by the Corps of Engineers should be made part of said corps, "subject to the responsibilities herein vested in the Procurement Division."

Procurement responsibilities in the specific agencies referred to as the "independent agencies" then existing, which were merged under this order, were the functions of the General Supply Committee. You may recall that in 1910 it was set up by statute, as a matter of fact, that was the first centralized procurement in the Federal Government, except for that short period when our Government was first established and it concerned only term contracts. In 1910, there was brought together within a committee to be known as the General Supply Committee the responsibility for making term contracts for the various agencies of the Government. Each agency had representation on the committee. They made contracts for common items of supply and those contracts were available to all agencies of the Government.

So the functions of that General Supply Committee, under this Executive order and statute, were transferred to the Procurement Division. The functions of the Federal Real Estate Board, Federal Specifications Board, Federal Traffic Board, the Interdepartmental Board of Contracts and Adjustments, and the functions then being performed by the area coordinators in the Federal Coordinating Service, which existed at that time under the supervision of the Bureau of the Budget, were abolished.

RESTRICTED

978

There was another group that had been coordinated by the Federal Coordinator, the so-called Federal Business Associations. But for some reason they had never been formally listed in the order that had been issued. They were not referred to in the order. The Bureau of Federal Supply has continued the coordination of the Federal Business Associations. Frankly, we have tried to transfer that work to the Bureau of the Budget because we think it has to do with management functions, generally, as well as supply, specifically; but it still is pending.

It was very clearly spelled out in this legislation that it was intended to have a central supply organization for the entire Government; to have all the supply responsibility for both military and civilian agencies of the Federal Government brought into this one group.

Admiral Peoples, who was then the Paymaster of the Navy, as I recall, was designated by the President to undertake this job. He was a very capable, and a very efficient Supply man.

He had no sooner undertaken the job than he found that he had a special job to do, which was much larger than the regular job, and that was this Emergency Relief Program. At that time, as you remember, we had quite a serious depression. There was this very large Emergency Relief Program (Federal Works), which called for setting up procurement offices in every State throughout the country, and getting underway rapidly. So he found himself more concerned, because of the urgency of that situation, with that specific program than with this basic job of going forward with the regular procurement program; and understandably so.

We have had those programs continuously. I don't think there has been any period since we have been going when we haven't had in the Bureau of Federal Supply one or more very substantial special programs, which are given to us because we are a central supply agency: Lend-Lease program, UNRRA program, Defense Housing program, Red Cross program, Strategic and Critical Materials program of the Munitions Board, and on and on you go. It has been pretty well accepted as a type of work we must expect because of our organizational setup.

When I went to the Bureau of Federal Supply in 1940, I decided that if we are ever going to get anywhere with this job of centralizing procurement, we would have to do it while these other urgent and special programs were going on. That is what we tried to do.

However, there was one other rather important development having to do with the Military Services. On 10 June 1939, Admiral Peoples issued a Director's Order (No. 73) which, in effect, said that he was then to

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undertake all procurement under this basic authority. I had better read that:

"The Procurement Division shall hereafter undertake the performance of procurement of all supplies, for use either at the seat of Government or in the field, for all existing Government agencies and such agencies hereafter created. Provided, that any agency may perform such procurement itself, to the extent permitted by the Director of Procurement, and such departments as the Director may designate, with respect to specific agencies, specific kinds of procurement, or specific supplies."

That order, however, did not apply to the Army, the Navy, or the Marine Corps. So that was a very material change in so far as our job of centralizing procurement was concerned.

At just about that time, incidentally, all of these building functions which had been grouped within Procurement as the Public Buildings Branch--the Architect's Office, those responsible for the construction of federal buildings, and the maintenance of federal buildings, and all those kinds of jobs that had been brought into the Public Buildings Branch of the Procurement Division--were transferred to the Federal Works Agency on 1 July 1939.

About that time in 1939 I had become very much interested in this matter of centralized procurement. I was over there making a survey. I was over there on several surveys, as a matter of fact: First, as to specific commodities (textiles); next as to heavy equipment; finally, an over-all survey of the entire organization.

It did not seem to us as a result of that survey, that the centralizing of all buying in one place was the right answer to the job of centralizing procurement; that under this Director's order, authority which I have just read whereby all procurement of all civilian agencies would be brought into the Bureau of Federal Supply, was just the way to go about it. When we analyzed the workload to find out what then was being done under this change which, incidentally, was the first real step toward doing the job, we found that a lot of paper-work was coming to us that just didn't belong there. We were getting requisitions for purchases against term contracts. Obviously, there was no reason in the world for having them sent to our organization. The term contracts should be used by the requisitioning agency for ordering direct. Our job is to make the original contract and it should be then distributed by means of the federal schedule pamphlets so that the agencies can have them and then they can order direct. So we got rid of all that work.

Next, we started to check to find out exactly what the Federal Government buys. We came up with some amazing information--amazing to me and I think it will be to you, too.

We asked Congress for the authority to do this job. We had to have a group to collate, analyze, and study the information. We found that an analysis of the purchase orders issued by the Federal Government for other than strictly military items showed varying percentages according to spot-checks, but substantially 90 percent of the purchase orders issued by the Federal Government represented a dollar volume of but approximately 10 percent of the total amount represented by the entire number of purchase orders. And, conversely, the remaining 10 percent of the purchase orders had to do with 90 percent of the dollar volume, which pointed up some very interesting observations.

First, it showed that we were getting too many small purchase transactions. What should we do about that? Well, there is no one answer to that problem. It is still going on. But we are trying to meet it. We have done certain things, however. That was the reason we undertook this national supply system, setting up consolidated warehouses throughout the country, whereby a Bureau of Federal Supply store for an area, or a few stores, can distribute to the agencies these commonly used items required every day.

That was quite a sizable job, though, because we had to do it while we had all of these special programs going on and the war was going on. We surveyed some 406 civilian warehouses, not military, and as a result we have either merged or liquidated most of those warehouses; the remaining warehouses are strictly operational. We now have in their stead these eleven warehouses throughout the country from which we issue these items commonly used day in and day out. That program is now mandatory on all the civilian agencies of the Government. The purpose is, of course, to minimize small transactions, we hope, through emphasis on scheduling. I will bring in some further comments on that a little later.

There are other approaches to that problem, as shown by that basic study, which call for other action. For example, in the civilian agencies 90 percent of the personnel is in the field service. Many of the offices of these civilian agencies, as you well know, are very small; for instance, two or three people, a half-dozen people, a dozen people, or a hundred people. In some, there may be a single employee: the Forestry Service; the Indian Service; the Alaskan agencies and so on.

However, aside from the store setup, and emphasis on scheduling, which has much more to be done on it, we are dealing with all of these offices. There is the approach of authorizing cashier-agents so that an employee might be authorized to make these small purchases out of cash, and paper work be minimized.

Scheduling is a very important part of the purchasing job. Also in federal purchasing the required fiscal and budgetary procedures are important to the determination as to where and how to buy. We will touch on those as we go on a bit further.

Now as to the other phase of the problem that has to do with the 10 percent of the purchase orders that were for 90 percent of the dollar volume. There again a number of points were raised. What are these commodities? These dollar volume purchases ran into about a dozen categories: machinery and equipment, electrical supplies and equipment, household furniture, automotive equipment, lumber, and so on. We have undertaken to consolidate the purchase of certain of those requirements. Others will be undertaken as soon as we have sufficient information concerning each commodity to determine just what should be done in each instance.

Then, from that point on, having some idea as to what this job involved, we have done certain things, all of which lead up to a pattern which I think has to be considered if we are going to have the full effect of centralized procurement in the Federal Government.

First, Standards.--We got away from the so-called organizational setup. You know, there is a tendency in Government, because of budgetary and fiscal considerations, when you have a job to do, and it is a specific program, to set up an organization under the title of the program. The budget is requested on that basis. Then, as the job is completed, that group is completely liquidated. It does have certain administrative advantages.

But for the kind of job we have to do, where special programs are constantly and continually a part of our job, it is not the solution. So we came up with the idea that as a central procurement organization we should be flexible, organizationally, so as to meet whatever type of program we might be asked to handle--regular and special. So now we are established on this basis, and we think, for our purposes, that it is the kind of an organization that will best do the job.

In considering our central supply functions the first one is purchasing standards. In a central supply organization, purchasing standards activities are so important that it would be impossible for me to overemphasize it. It is the basic key to centralized procurement in the Federal Government.

Second, the Purchase Function.--That is where all the glamour is, in purchasing. While it is pretty important--I don't underrate it for a moment--yet it is unduly emphasized, as compared to other phases of the supply job. You can be a marvelous negotiator, you can do a perfectly glorious job, but if you do not have the basic build-up so that you are doing the right purchase job, then you have missed the boat completely.

Third, Stores and Stores Distribution.--We have set that up as a separate function because, again, that has to do with the distribution of supplies, materials.

Within each of these functional structures we have various other phases of supply; however, those are the three principal ones in Government: Standards, Purchase, and Distribution. We have within standards, for example, purchase specifications, Federal specifications and materials inspection. We do the basic work in initiating the federal purchase specification and work with the 79 technical committees throughout the Government and they, in turn, work with industry, then the final review and promulgation is handled by the Bureau of Federal Supply.

It pleased me beyond words to see the Military undertake the classification of commodities last year when we weren't able to get our appropriation due to legislative snags.

Getting right back to Executive Order 6166 again, when we went down to ask for money to do the job that was needed in order to develop a federal catalog system, the Senate Committee on Appropriations, on revision questioned our authorization because it was contained in an Executive order. We hope to have all of that clarified in proposed legislation. However, that is another function of our Standards Branch. Right now, its principal job is to coordinate with the Military for the civilian side of the Federal Government.

We have materials inspection in the Standards Branch because that, in effect, is the means of determining whether or not you get the quality performance that is spelled out in the basic specification.

Those are three functions within Standards.

Now within our Purchase Branch apart from purchase contracting, we have our central traffic operations. I think that is a tremendously important job. It needs to be close to purchasing for the most effective operational results. I am not speaking of the transportation function, executive bills of lading and that sort of thing. I am speaking of traffic management such as the determination of traffic policy and the handling of rate cases before the Interstate Commerce Commission.

Within our Purchase Branch we have also what is known as a Public Utilities Group. It studies the contracts that have to do with utility services to determine what is needed to effect the utmost utilization of the service within the rates prescribed. Representatives of the groups appear at rate hearings where there are proposals for rate increase provided the Government has a sufficiently substantial interest, and they have done a pretty good job in terms of dollar savings.

Within the Stores Branch we have what is known as a Management Analysis Group. That group is concerned with the study of commodities to determine those which are best suited to that type of an operation.

They work with the Purchase Branch on the determination of requirements, the reasonableness of prices, and so forth.

We also have special supply programs. For example the acquisition of strategic and critical materials is a special program.

And, of course, there are all of the fiscal, budgetary and administrative operations that have to do with these supply functions I have been talking about.

I think that covers the high spots of what we are doing today. Briefly to summarize: Our job, as a central supply agency, has to do with standardization. I should say that is number one. We think that the matter of supply policy should be standardized throughout the Government.

It is the sort of thing that calls for a very close relationship between the civilian agencies and the military organizations. Further purchase standards operations--purchase specifications and a standard commodity identification system are--in my opinion--basic to government-wide supply advantages.

For this reason we know, and we recognize, that the Military has a vast procurement job. To a very large extent, it is specialized procurement.

Nevertheless, industry and those to whom we look for supplies, whether it be civilian needs or military needs, think of the Federal Government as one organization representing one government. They do not understand why it is that there are differences in the methods and procedures. We feel that they should be standardized.

We feel that in so far as the military buying-job is concerned, it is pretty much a job for the Services to do, except as to the standard or commercial items which are in common use by the civilian agencies as well as themselves. For example, there are many commercial items that are used in much greater volume by the civilian agencies than by the Military. In such cases the advantage would go to the Military. There are other situations where the advantage would go to the civilian agencies. But we are now discussing standard or commercial items. That is the point I am talking about: Standard or commercial items--furniture, paper products, and so forth--where the suppliers are the same. I think that is a field that should be coordinated.

I think the consideration is to determine the government-wide interest. I know, again and again, whenever we have a proposed consolidated purchase program, each agency that is affected necessarily views it in its own light. In some cases representatives come in and say, "We have a special problem. We are different from the other fellow. We think this is good for the other fellow, but we don't think this ought to be extended to us because we are different." Well, actually, I feel that sometimes that is overdone. The determination should be made on the basis of the Government-wide interest. On standard or commercial items we ought to consider both military and civilian requirements together.

In speaking of centralized supply, so far as the actual buying is concerned, it does not always follow that all of the buying of a particular commodity needs to be done in a particular place. Frequently, that is not in the interest of the Government at all. Certain commodities can be scheduled, centralized, such as heavy equipment.

There are other items that, under a standardized policy and procedure, might be bought geographically, or might be bought on a commodity basis. I think each commodity, or each group of commodities, has to be studied separately.

We have asked for legislation, as I have said, that would parallel the authority you have in the Armed Forces Procurement Act. There are just a few minor changes. This proposed legislation has been referred to the Bureau of the Budget. We are asking for, well, I would say, exactly the same authority the Armed Services have with the exception that our language is a bit different. For example, the first exception: "determine to be necessary in the public interest during the period of national emergency", and so forth. I think your language is "national defense"; ours, naturally, would have to vary.

You limit your bill of appropriations; we don't. We buy with funds that are not appropriated by the Federal Government. We buy with funds that are furnished by foreign governments, in some cases for international corporations, and so on. While our Government participates in donations to the international governments, yet the fund is not an appropriated fund in so far as the international corporation's expenditure for supplies is concerned.

Differences in this bill are minor. There are just a few. Substantially, it is for the same authority that you have.

The other bill you have heard about--there have been hearings held on it--is the so-called Federal Property Act, which proposed that our organization be made a part of the Federal Works Agency. We believe in the substance of that bill. As to organization that is a decision for the President, as to where the organization should be in the federal structure.

The actual report of the Hoover Commission is not yet available. The suggestion has been made in unofficial newspaper reports that there should be an organization within the Office of the President to handle the so-called housekeeping activities of the Federal Government, bringing together budget, personnel, supply, and so forth.

In so far as the substance of this Federal Property Act is concerned, we are for it; we think it is all right. I won't go into each of those provisions; I am certain you are familiar with them. You may have some questions to ask about them. I will be glad to give you my ideas.

I think that the job of a central supply agency within the Federal Government must be considered in the light of the needs of the Federal Government, which are tremendous. The Federal Government has agencies over the country and there are locations to be served in the possessions of the United States. For example, we serve the Alaskan Railroad and the needs of the Eskimos and Indians. It runs into a pretty varied lot of supplies.

I think the principal contribution a central supply agency of the Federal Government could make would be to emphasize the standardization of procurement policies; to emphasize the standardization work that has to do with specifications and cataloguing; and to undertake, operationally, to do only that purchasing which is clearly in the interest of the Government to do within a central supply organization.

I do not think that a central supply organization should feel, because it has the authority to undertake procurement, it should then try to see how much work it can bring into our organization or how much buying it can do itself. There are certain kinds of things, operationally, that can be best handled by a central office. Take, for example, term contracts for common supplies to obtain quantity pricing advantages. You can't scatter those all over the country. The job should be done centrally or by zones. That is one of the divisions of a centralized-buying job--to contract for those kinds of requirements that need to be brought together in order to get quantity price advantage. The term contracting should be centralized either in Washington or in one of the zones, or in the Supply Center, wherever it best fits, depending on the commodity, quantity, points of use, and supplier considerations.

Where there is a substantial dollar volume involved, where the dollar volume would put you in the position of going to the first line of supply (the manufacturer) and the need can be most economically met through direct delivery or stores distribution, consolidation of requirements to meet the best buying advantages is in order.

We buy automotive equipment for Government-wide needs except for the Military because you have the problem of merging that in with the military equipment to get production benefits. We centralize automotive-equipment buying right here in Washington. As to certain other commodities, we try to break them down where we can; to bring them as near to the point of use as possible, consistent with quantity advantage.

We think the central traffic work ought to be extended.

There are the Wheeler and O'Hara Bills. You are all familiar with them. In substance, they propose to set up a separate transportation organization to handle all transportation for the entire Federal Government. We think that the central traffic work could be brought together in one group. That would include the hearings before the Interstate Commerce Commission that I mentioned to get the advantage of favorable rates. We think that is mighty important.

We feel that, in so far as meeting some of these points raised in the Hoover Commission Report that have been generally indicated thus far, where they were stressing the small-order transactions, the cost of documentation exceeding the cost of the goods, and so on, our idea as to the sequence of what is important varies somewhat from that point. I will be glad to go into that further if you are interested.

If there are any questions, I will be glad to answer them.

Thank you.

QUESTION: Mr. Mack, at the seminar yesterday, Admiral Ring said that after discussion with your organization it was decided that the wartime procurement of tires should go back to Army Ordnance. Could you give us some of the reasoning behind that?

MR. MACK: Well, as I recall it--and I have only a general recollection of that--it was indicated that there would be very substantial quantities of special tires, that is, aircraft tires, and so on, rather than the standard, normal requirements that would exist in peacetime. That is my recollection of it.

Did he indicate anything further about that? Maybe I could recall something more to the point.

QUESTIONER: One of the things he said was that, in any event, an expansion of personnel would be made. Also, there was a greater tendency for people to want to get into uniform or into work with the military organizations rather than to go into an expanded civilian agency.

MR. MACK: I see. I'll give you a few facts, then I can see if I can get to the point he had in mind.

During the war, our purchases of tires from the tire companies ran probably a hundred million dollars a year. To a very large extent, those requirements were for the countries under Lend-Lease. We were buying for fifty-six countries.

There was an exception given, as I recall it, to the Military for aircraft and special tires. I think that it was on the basis that it would facilitate procurement for their special needs. We are, naturally, for anything that will facilitate procurement. Incidentally the price we pay for standard tires is the Detroit manufacturers' price. We have one added advantage: You see, the Detroit manufacturer gets his price based on car-lot quantities. We were getting that price for shipment of "less car lot"--one tire, two tires, or three tires as well as larger quantities. The further difference is that we were getting those one, two, or three tires individually wrapped, whereas the Detroit manufacturers were getting them unwrapped in carload lots.

True, the Military bought a lot, but a hundred million dollars in tires is a lot, too.

Perhaps it must have boiled down to the question of what was in the interest of saving time and relating it to the equipment purchases, making it more convenient, and so on. Those would be the questions that would be uppermost in my mind.

QUESTION: In your answer to the last question, put together with the statement you made in the previous discussion as to geographical buying, also buying on term contracts, along with the things we read in the newspapers about the present Capehart Committee investigation, what is your personal viewpoint on f. o. b. buying, the basing-point system?

MR. MACK: It is a good question. We think that the Federal Government should have advantage of the buying methods that would give it the utmost competition. We are not opposed to the basing-point price system and we would not want to be limited to f. o. b. prices.

The circumstances indicate a reasonable pricing system. On the other hand, it does not have to be a criminal case to be an unfair pricing method. It could be any situation that indicates the industry has gotten together. Cases of those kinds, of course, we turn over to the Department of Justice.

It could have been just as complicated if the Federal Trade Commission had decided it was against the f. o. b. method of pricing and for the basing-point price. It could be difficult either way, as I see it.

It gets down to whether or not the facts that had to do with the situation affecting the condition of an industry indicated that there was an unfair or unreasonable method of pricing.

QUESTION: I believe, sir, you stated that at the present time your organization does all the buying for civilian agencies or organization, and that the Military--Navy, Army, and Air Force--does its own buying.

We discussed the matter to some extent--probably not thoroughly--yesterday in a seminar. It was my understanding that your organization does do a certain limited amount of buying for the Military through the use of open-end contracts or some other means. Could you discuss that?

MR. MACK: I am glad you raised that point because I covered it very generally. I covered a lot of things very generally with the thought in mind that those things you are interested in, you would ask questions about.

First, we do not do all the buying for the civilian agencies. They buy against our term contracts certain common-supply items totaling some 40,000. So do the Military. The term contracts, there referred to, are the Federal Supply Schedules. They used to be known as the General Supply Schedule but we have changed the name to Federal Supply Schedules.

Now those term contracts (the so-called Federal Supply Schedules) are mandatory upon all departments and independent establishments in the District of Columbia, military and civilian. In about half the commodity classes they are mandatory in the field services as well. So the military and civilians, both, use our term contracts.

Next, the Military Services use our stores system, to some extent--not very largely. Where it is convenient or where they run out of something and we have it, they look to us. I think from our supply center here in Washington probably a third of our issues are for the military services here in the District. But it isn't a large amount of business in dollar volume.

Third, on consolidated purchases, we do very little for the Military Services; mostly for the civilian agencies.

My feeling about that is, very frankly--I talked with Mr. Hargraves about it, when he was Chairman of the Munitions Board; I haven't talked with Mr. Carpenter yet, but plan to do so--that we should undertake a program with the Military, through your Procurement Policy Committee, that is, Admiral Ring and the others, whereby a determination should be made as to those commercial items that could be best handled through the Bureau of Federal Supply, or those which we should not try to handle. The only way in which you can get to that decision is by studies of each commodity.

But, again, we don't have any idea that we could help the Military Services on the actual buying job, in so far as strictly military items are concerned, or those which are very closely related to strictly military items. But we do feel that there is a field where the central supply organization must do the job, where the item is in common use such as our stores and consolidated purchase programs. It doesn't make sense for us to buy certain commercial items and for the Military to buy the same things.

On automotive equipment, for example, we talked to the Munitions Board. Its representatives seem to think that that was so closely related to the procurement of your automotive equipment, of a military character, that they would prefer to be excluded from that order,

I would think that is an item that would have to be reviewed again. But that is, as I say, a borderline case. They made a point and we went along on it. But certainly there are many standard items where it is clear as to procurement by a central supply agency; for example, paper. (This is one of the reasons we want this legislation cleared up. I think that would be one of the best ways to crystallize some of these things.) Today, by reason of an old statute, the Government Printing Office buys paper for the Federal agencies in the District. G.P.O. employees are printers. But they have that buying authority by statute and they are going to keep it until there is a change by legislation. That is the only way it will be worked out. We are asking for that legislation.

So what is the result? The Public Printer--I have talked with him about this--not only prints, which is his primary job, but he also buys paper for the agencies within the District of Columbia. We buy for the agencies outside the District. So that industry is just a little bit confused with all these procedures. The answer to it is the proposed legislation.

QUESTION: You spoke of a small group in the Stores and Stores Distribution Section studying the reasonableness of prices. Also, you referred to the Price Analysis Section. Would you please explain the role the Price Analysis Section plays as a tool of procurement by the Bureau of Federal Supply?

MR. MACK: As I said, that group is a very small one. The approach they are making is this: Of course, they start out, basically, with our Stock List. They review the requirements for replenishment. They determine from the history of each commodity, from data as to past needs and indicated future needs, and so forth, what they think would be a proper requirement. The price results when they get together with our Purchase Branch, the people who are going to do the actual purchasing. So you have the Stores Section on one side and the Purchase Branch on

the other working together as a team. Their offices are right across from each other. They reach a determination as to what is considered to be a fair price for that stores item and the purchase group concerned will endeavor to keep that price in mind when they make the purchase.

It is not a price-analysis routine such as we had during the war where the various segments of costs were broken down. It is a means to emphasize price-consciousness. We feel that is important in government. Too often there is an attitude, "Well, we issue Invitations to Bid and the award is made to the lowest responsible bidder." That is why we emphasize price-consciousness. This is just one means of doing that.

QUESTION: In connection with this buying of common items, where automotive equipment was taken as an example, what answer would you give to the argument that the Military should, in order to maintain contact with the suppliers, keep abreast of all changes that take place because whatever procurement organization we have in peace will be expanded in wartime? Such things as stock numbers, and so forth, are constantly changing and unless you have something which is developing know-how in peacetime, you are not going to be able to expand during wartime.

MR. MACK: The nearly best argument you have is that you maintain contact with suppliers for those things where you have to depend on the same supplier for military items.

That argument applies in connection with automotive equipment because you must go to that same supplier for a strictly military item whereas we are going to them for a standard commercial item. So, in effect, the result would be that both of us would be doing business with the same supplier, eventually. That is the best argument in that case.

My point is that there are many standard items—paper products, for example. As an illustration, I think there ought to be in one place in the Federal Government the best talent we can get together on paper-buying, instead of spreading it all over the land, with G.P.O., the Military, Post Office, and ourselves. That is about the way it is today. That's my point. You have to approach the buying problem by commodities. Then we would be going to a supplier that, normally, the Military would not be going to because there would not be military needs that would require it.

The Military, no doubt, is best qualified to do its own job of specialized military procurement. I was over in London a little while ago. While there, I talked to Minister of Supply Strauss. He emphasized that very same point. But over there, as I think you may know, if you have had any discussions about it, there has been some segregation as to other types of buying; items which are not of a military character.

The Ministry of Supply, in effect, was the procurement organization of the War Department of the British Government.

**QUESTION:** One of the things we are very much interested in here is protection of our sources of supply during mobilization for war. While a common commercial item which you buy for us may not be terribly important, it may turn out actually to be a very important war material for us. What are you doing about protecting our sources of supply of common-use items?

**MR. MACK:** I think the answer to that would, very frankly, be this: I do not think that the Federal Government, generally, is in a position today to do too much to protect your sources of supply for the future. For example, in the Military, I don't think you are in a position today to say, "I'm going to select you as a supplier of this specific item. You will get all that business in the event of war."

There is a general situation, however, whereby working relationship with a supplier or with an industry over a period of time does establish a situation that would be beneficial in time of war.

Was that what you were thinking of? Or were you thinking of going to a particular supplier to do a particular job?

**QUESTIONER:** I was thinking of an industrial mobilization plan on your part to protect the common-use items we must have in the event of war.

**MR. MACK:** I see. Well, no, we are not participating in an industrial mobilization plan. I think that if standard common items of supply, commercial items required by the Military, are purchased by ourselves that most certainly we should participate very actively in any plan that is developed along those lines because it does have a bearing on the over-all supply job. Some of these standard items are just as important as the military items.

**QUESTION:** Mr. Mack, to get back on this automotive question, have you ever considered a joint procurement office with the Military? In other words, take your automotive procurement section and locate it in Detroit with the Ordnance procurement people who are procuring automotive equipment?

**MR. MACK:** Yes we did--at least I'm sure that that was considered by the Munitions Board.

I think that goes to a basic consideration: While the Military is doing a good bit of procurement which extends to common items, I don't think it could afford to put itself in the position of doing a service job for the civilian agencies. You have too big a job of your own.

QUESTIONER: I meant locating your personnel in the same office. In other words, just transport your people from Washington to Detroit and set them up in the same office.

MR. MACK: There was some discussion about that, I think, either in one of the letters we received from them or in a meeting with the Munitions Board. I don't recall that they went quite that far, however. But that would be something to consider because then we certainly would be brought together.

QUESTION: Up to what dollar value do you consider a "small purchase"? What devices do you use, or would you recommend, to hold down the administrative cost of such purchases?

MR. MACK: Well, approaching the question from the viewpoint of the administrative cost, we consider anything that costs less than \$15 the kind of purchase that results in administrative costs that equal the cost of the goods. The estimated administrative cost for handling a transaction is about \$15; that is, from the time the requisition is received, handled, processed, and goes all the way through to a G.A.O. post-audit.

I think there are several approaches to that: Number one is scheduling. We emphasize that. We have a small group to make surveys of the procurement practices of agencies. In one instance the other day, we found that one agency in New York, right within the same office, had issued three requisitions on the same day for a small item, something like 75 cents or a dollar each. The administrative cost of processing each one of those transactions would run just about \$15.

We think that the stores-distribution method helps very much. We think that agent-cashiers would help too. But basic and foremost is scheduling.

A very important part of this job, which nobody talks about, is the fiscal side. Actually, there is no reason for all this tremendous interchange of documents, except for the fact that in the beginning someone set up the system of appropriation expenditures year by year. Supply appropriations are included in the respective appropriations, with the result that we have thousands of separate appropriations for the same item of supply.

Now my feeling is that when it can be reasonably determined what the value of common supplies may be, then there should be a single appropriation. Issues should be made against the available stocks at no charge to the agency. There would be one appropriation, one accountability. As a matter of fact, that is exactly what is being done in

one group in England. That group is known as His Majesty's Stationery Office. That office buys paper supplies, and all that sort of thing. It has a single appropriation for the total needs of every agency that requires such things as printing, binding, paper, stationery, and so forth. When the using agency issues a requisition to the stationery office it checks the record of past use to see that it is reasonably consistent and then issues the material. There is no interchange of documentation thereby minimizing fiscal procedures. But, here, we have a system which calls for thousands of appropriations for the same kinds of supplies. That is, incidentally, one of the things I emphasized to the Hoover Committee investigators. I hope they bring it out in their report. It just doesn't make sense.

The point I want to make is that aside from the things we do in supply operations to relieve small purchases, you must also approach the problem from the fiscal side.

Last, and again very important, you can bring all the supply people in the section together, and you can sit down and have all sorts of agreements and understandings as to desirable budgetary and fiscal procedures to facilitate supply processes. Everybody will then go home and you will continue along about the same way if you don't have the support of the top administrative people of the agencies. The top administrative people are the ones who can make scheduling work. They are the ones who can help you on some of these fiscal and budgetary procedures.

QUESTION: Mr. Mack, you touched lightly on my question. My question has to do with procurement by Ordnance, for instance, for the Bureau of Federal Supply--gas masks, tear-gas grenades, small arms, and so on. It might be very advantageous for Ordnance to do that in peacetime.

Would you touch on that a bit, sir?

MR. MACK: I would think it might be done. I think we would be for that.

QUESTION: Is it done now?

MR. MACK: Well, you are doing it now, aren't you?

QUESTIONER: Unquestionably.

MR. MACK: I think that is the way it should be handled.

QUESTION: Would you favor an extension of that for certain other items in peacetime?

MR. MACK: I think the Federal Supply Bureau should make the purchase where the item under consideration is in common use throughout the Federal Government—and there are literally thousands of them. Some run into dollar volume and some are very small—the quantity should help to determine where the line of demarcation should be. There may be, outside of your own organization, one or two civilian agencies buying such items as gas masks. But it is not an item in Government-wide common supply. Therefore, I think that should stay where it is—with Ordnance.

I think the line of demarcation comes about where I said, "Is it a common-use item, or not?"

QUESTION: Could you give us your ideas on how prices can be controlled? What would be the best measures for price control in a war emergency?

MR. MACK: Would you give me time to call up Leon Henderson? That is a sizable order.

Basically, on these so-called "controls," whether over materials, prices, transportation, public utilities, or what have you, my feeling is this: That right now, in peacetime, there should be a program developed whereby we would prepare for an emergency by having it pretty well determined that regular agencies of the Government would handle those kinds of things; for example, the Department of Commerce on materials allocations and so on.

I think that the matter of price controls has to be undertaken so far as the actual price determinations are concerned, at the time the emergency occurs. But the basic principles and policies could be developed during peacetime.

Nobody wants controls, except as a last alternative. I guess everybody is against controls. I would think they would be, anyway.

But I don't think you can do more in peacetime than designate who is going to do the job and provide the opportunity to prepare for it. I think it would be very unwise in the event of another war to expect to set up emergency agencies to be responsible for materials and price controls when the regular agencies of the Government could prepare during peacetime to be ready on short notice when needed.

I think in these kinds of problems the military should look to the Department of Commerce on material controls, for example; and Department of the Interior on certain things, such as fuel and oil. In that way they will all be pretty well established and ready to go if anything breaks.

It is a pretty slow process. You remember shifting over from the formal purchasing procedures to the negotiated routine in World Wars I and II. It took just about a year before it was really clicking. You can't take a procurement group that is used to this formal-bid procedure and say to them, "All right now; tomorrow you're going to sit down and negotiate." You have to develop a psychology. You have to develop a method. You have to develop a technique. You must remember that you are spending the taxpayers' funds, no matter whether it is an emergency or peacetime. As an administrator, you have to think in terms of accountability. When you negotiate, you have to set up administrative safeguards to protect public funds. That all takes time and calls for trained personnel.

I am pleased that this Armed Forces Procurement Act was legislated. I think it is a marvelous thing. True, it is not easy. There are many problems, I know. But you will have gained tremendous experience during peacetime with the existing personnel.

However, the open end, I think, is on the controls. The use of organizations that are regular organizations of Government, I believe, is the answer to the problem.

QUESTION: Back to your question of pricing f. o. b. destination or f. o. b. factory, sir. I assume, from what you said about wanting the Traffic Management Section somewhere close to procurement, that you would like to do some traffic management.

My question is, do you favor pricing your contracts f. o. b. destination or f. o. b. factory?

MR. MACK: We are in favor of both, and I'll tell you why. There are certain types of purchases that can be made to the best advantage of the Federal Government by a delivered-price contract. For example, many of these items we buy against term contracts. The prices, in many cases, are delivered prices. On the other hand, there are clearly instances where it would be in the interest of the Government to have f. o. b. pricing.

The cement case, of course, started all of this controversy originally. When Admiral Peoples was the Director of Procurement, he testified for that. We think that pricing practice was wrong. But we don't think that should be applied generally to delivered pricing throughout the country. When you buy a pack of gum at the newsstand, it is five cents in Seattle and in Boston it is five cents. It is the delivered price.

I think the important thing is to come up with a clarification. That is the really important thing. I think they will do it.

QUESTION: In connection with this small-order business, we have had a lecture in which it was indicated that a majority of the independent federal agencies had virtually no stock control. In other words, there was very little controlling of anticipated needs.

I would like to ask a question as to whether or not, since you shifted to your eleven buying agencies, your storehouses, the result has been instead of setting up stock-control systems, which is what is needed, and ordering maybe once every six months, or once a year, a larger quantity if now they are only sending in a small requisition once a week and you people are wrapping it up in small packages and sending it out more often.

MR. MACK: The answer to the first part of your question is that they do not have government-wide scheduling of requirements in the civilian agencies. More important is the fact that we do not have property management government-wide.

I do not know what the final report of the Hoover Commission investigators will be. But we know when they are talking of federal procurement generally, they are not speaking of the Bureau of Federal Supply alone.

But my feeling is that this would be the sequence of the troubles in the Federal Government so far as supply is concerned:

This small-purchase transaction, true, is a nuisance; but I don't think that is a big thing. That will be overcome when standards and scheduling are established.

We do not have standardization government-wide. We have today a listing of perhaps 12 million items in the Federal Government, but actually they represent only about three million items. We have today seventeen major cataloguing systems, most of them within the Military. We should have one system.

Those are the kind of things we have to shoot at. When you do that and when you come up with real standardization and there is one identification for the same commodity government-wide, then you are in a position to establish property management, utilization of property government-wide and minimized purchasing.

I think those are the major points. So far as stores are concerned, we make a check and if we find that an agency is sending in requisitions too often for small orders, we call it to their attention; and, really, that is the best way, from a practical angle, to find out.

The best way to get a job done is through administrative controls. The best administrative control, for practical purposes, is to check the requisitions that come through to the stores. If there are too

many small orders received administrative controls call for a special check with the requisitioning agency and point out the difficulty.

GENERAL HOLMAN: Mr. Mack, I think the number of questions and the character of the questions convey our interest in this subject.

Before you leave the platform, I would like to thank you not only for this splendid talk but also for the help and assistance we receive from the Bureau of Federal Supply all year around.

MR. MACK: Thank you, General.

GENERAL HOLMAN: Thank you very much.

(19 January 1949—750)S/mmg.

