PROCUREMENT POLICIES OF THE GENERAL SERVICES ADMINISTRATION

26 January 1950

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MR. MUNCY: General Holman, students: I think it might be well this morning to start by asking a thought provoking question: Are we better prepared today to meet the problems that faced us at the beginning of World War II than we were in 1941? We can answer that question with a strong affirmative and cite as evidence the following three laws which have enacted in recent years: the National Security Act of 1947; the Armed Services Procurement Act of 1947; and the Federal Property and Administrative Services Act of 1949. Those three acts are major steps ahead in ironing out some of the problems which caused delay in 1941, in so far as that delay was the result of lack of close meshing and coordination between civilian and military agencies of the Government.

We are indeed fortunate this morning in that our speaker was responsible for drafting several of the bills which were later incorporated into the Federal Property and Administrative Services Act of 1949. I should tell you, by way of background, that he is a graduate of Harvard Law School and is a member of the Air Corps Reserve. He has had government experience as an attorney here since 1933.

Our speaker is appearing for the General Services Administrator, Mr. Jess Larson, who had intended to be with us but who, on short notice, received a request for a command performance before a committee of Congress, which he could not forego.

It is a distinct pleasure for me to introduce to this audience and to welcome to the Industrial College of the Armed Forces, Mr. Maxwell H. Elliott, General Counsel of the General Services Administration. Mr. Elliott.

MR. ELLIOTT: I want to start out by apologizing for my boss, Jess Larson, not being here. As Fred Muncy told you, he received a request for a command performance and has to appear before Senator O'Mahoney's committee this morning. I know he has a more difficult assignment than I do. He is supposed to tell the joint committee how the rise in the steel price has affected the cost to the Government, which, of course, is practically an impossible task, as the Government's purchases of steel are mostly in the form of end products and not raw steel. So I am delighted that he has that assignment down there and that I have this one here.

I might also say, by way of introduction, that it is a matter of personal pleasure that Mr. Larson asked me to substitute for him. Part of the time during the last war I was a captain in the Materiel Command

in the Eastern District, and at that level, you know, I got a policy statement that went from here to here to here and finally down to me. So it is a pleasure for me at this point to be telling some of you folks the legislative background of Public Law 152. Maybe the time will come when you will call me up for active duty and I will get, several layers down from you, some of the things I am going to say this morning.

I am sure all of you know pretty well the background of Public Law 152. For a good many years, a number of people had thought the Government ought to have a firm statutory basis for an orderly system for its property management. That idea was put aside during the war because of the impelling needs of war procurement. Then, immediately after the war, at the other end of the scale, which was the disposal of property, we were faced with the unprecedented task of providing a special legislative device for disposing of war surplus. That was the Surplus Property Act of 1944. With the diminution of that problem, interest was renewed in providing an over-all permanent property management system.

You all know that the Hoover Commission takes a great deal of credit for Public Law 152 and the creation of General Services. Without detracting from that deserves credit and the Commission's very laudable ideas, I would like to point out that the Administration had proposed to the Eightieth Congress, by a message from the President, what was then the proposed Federal Property Act of 1948. The present law, P. L. 152, is substantially that bill, which, of course, antedated the Hoover Commission recommendations by six or eight months. So, in this case, I think the Administration was a little ahead of the Hoover Commission.

I would like to say one other general thing about Public Law 152 because there have been certain misconceptions concerning its intent. It provides, or attempts to provide, a uniform system for government property management. A uniform system does not mean that all procurement has to be done in the same way. It means that we have a system and that the system is flexible enough to fit special circumstances. Also, it does not mean building up a huge bureaucratic octopus that is going to take over all procurement as a centralized proposition. Sometimes centralized procurement is good in certain fields; sometimes it is bad in other fields. I know that, so far as Mr. Larson is concerned, his leanings are the other way--toward decentralization. He regards the mission that he has from the Congress and the President as one primarily of prescribing the ground rules under which the agencies will operate for procurement in the most efficient manner.

Before I get into a more detailed explanation of Public Law 152, I think I should speak briefly about the relationship of the military departments. The military departments present a special situation in any uniform system, and they do so for two reasons. One is not peculiar

to the military departments, but it probably affects the military departments to a greater degree than it does other agencies: That is the matter of specialized supply, or procurement, that just will not fit into any general system. The Congress recognized that in Public Law 152; in the list of exemptions at the end of the act, it specifically exempted certain programs as not being generally susceptible to a uniform system. The second reason is peculiar to the military departments, and that is the need within the Department of Defense for a continuing procurement and supply program and organization in being, which can be expanded readily in times of emergency or war. I think all of us who are familiar with that problem realize it is absolutely essential that the Department of Defense continue in being an organization of its own for procurement, for that reason if for no other.

Dwelling on my own personal experience a little, when I was in the Eastern District of the Materiel Command, at one point in the last war, there were, I think, 1,100 officers in the district, and only one of them was a Regular Army officer. I think that was wrong. I think they all recognized it was wrong. They just did not have the people. And that is an additional reason why it is essential for the military departments to have the people, so that there will be, in time of emergency, more than one Regular Army officer to 1,099 Reserve officers. The ratio certainly should be greater for the effective carrying out of any military procurement in time of emergency.

There was a great deal of fear in a lot of people's minds that it would be impossible to have the civilian establishments and the military establishments work together. Everybody seemed to be afraid of the problem. At one point in 1948, as perhaps all of you know, the then Under Secretary of the Navy, speaking for the three departments, asked the Congress for a complete exemption. The Hoover Commission, in its report, tried to solve the problem by setting civilian procurement here, military procurement there, and having them come loosely together at the top by some kind of committee arrangement.

I personally don't share the fears that have been expressed. Of course, w e have been in operation for only the last six months, but during that period of time my own contacts, which have been principally with the JAG's officers of the services, have been invaluable to me. We could not have gotten along if it had not been for the assistance they have given us. They were so much further advanced than we were that we have just had to lean upon them, and they have been very helpful. One instance is the standard form of supply contract, respecting which they had developed under the Armed Services Procurement Act. If they had not done that, we would not have been able to get out our standard form today.

Public Law 152, as you know, provides that the Secretary of Defense may, unless the President otherwise directs, exempt the military establishment from certain areas of operation. The reasons for that exemption, which was put in by the Congress, are the two reasons I mentioned before; namely, the specialized procurement problem and the logistics need for keeping a military organization in being.

On the first of July, also, as you know, the President directed a letter to the Secretary of Defense, the Administrator of General Services, and the Director of the Bureau of the Budget in which he said, in effect: Continue for the time being the relationships in procurement which formerly existed between the Bureau of Federal Supply and the military establishment, and you boys get together and develop areas of understanding. There were a number of discussions, and, as a result of those discussions, a general policy statement, dated 17 January 1950 which follows was signed:

"A joint policy statement developed by the Department of Defense, the General Services Administration, and the Bureau of the Budget as the basis for greater coordination of civilian and military procurement was released today by Louis Johnson, Secretary of Defense; Jess Larson, Administrator of General Services; and Frank Pace, Jr., Director of the Bureau of the Budget.

"The joint policy statement complies with a directive by President Truman that areas of understanding be developed between the General Services Administration and the Department of Defense in respect to the Act of the 81st Congress which created the General Services Administration as the civilian supply and property management arm of the Federal Government.

"The heads of the three agencies pledge in their joint statement that they will work to prevent competition between the military and non-military supply systems."

A copy of the joint policy statement follows:

"The President's memorandum of July 1, 1949 to the Secretary of Defense, Administrator of General Services, and the Director of the Bureau of the Budget, directed that areas of understanding be developed between the General Services Administration and the Department of Defense with respect to the application of the Federal Property and Administrative Services Act of 1949 (P.L. 152, 81st Congress). Considerable progress has been made in certain areas. Completion of the task will be expedited by acceptance of basic principles.

"It is a necessary part of our national defense to keep appropriations within bounds. Our economy requires it, the President and the

Congress rightfully expect it consistent with the fulfillment of primary missions. The preservation of our non-renewable resources from unnecessary exploitation in our time will mean that future generations may also have the substance of defense.

"Modern war is total war involving all agencies and segments of our economy--farmers, factory workers, professional groups, as well as the traditional military forces. Within the Government, many, if not all, civilian agencies have wartime functions, and a careful planning and providing for their needs is essential to a consideration of the whole problem.

"The accomplishment of this task requires detailed examination of many areas of effort and assignment of tasks to both military and non-military agencies. While it is recognized that the great bulk of military procurement in both peacetime and wartime will continue to be handled by the military departments themselves, nevertheless there are certain procurement areas and other areas of effort, such as certain parts of surplus property disposal, real property management, traffic management, etc. where it will be important during peace and war for the military departments to continue to depend upon the General Services Administration. Because effective military supply planning covers both current peacetime operations and wartime functions, it appears essential that if sound planning is to be done the military departments must have assurance that the General Services Administration will continue in existence in wartime and will be protected against undue inroads by Selective Service. To develop 'areas of understanding' for peacetime use only would greatly complicate the problem.

"In a war economy, especially, each item should be considered as being a scarce item. Transportation, storage, manpower, and other scarce components are involved in producing items which may be fabricated from abundant basic materials. We are a 'have-not' nation with respect to some materials and are fast reaching that status with respect to some once-abundant materials.

"All agency requirements in peace and in war should be coordinated so as to constitute a minimum impact upon the Nation's economy.

"The military and non-military supply systems must be coordinated at both the policy and operation levels so that the constituent agencies will not compete against each other for their requirements thus creating artificial scarcities and inflationary prices. This objective can best be attained by considering all phases of Federal Government supply as a part of an overall supply management concept, rather than by isolating the segments and making each the object of special administrative or statutory attention. To accomplish this end there will be required wholehearted cooperation between the military and the civilian agencies.

"Every effort will be made by the undersigned to expedite the development of areas of understanding within the framework of the above policies."

It prescribes the basic policy arrangement that the Administrator, the Secretary of Defense, and the Director of the Bureau of the Budget have agreed upon. I think that policy statement speaks for itself, and I think it is a clear refutation of the charge that the military and civilian cannot work together, because, it seems to me, there is a basic framework which says they will work together and how they can work together.

Chart 1, page 19.--With that basic understanding of the details of our mission, I will start with this chart, just to show you how we are organized internally in General Services to carry out what we think is the property mission.

Top management consists of our management office--fiscal people, our legal people, such as myself, and other "Ivory Tower" people. Our Public Buildings Service will be concerned with the construction and acquisition and leasing of building space, the utilization and management of real property, the management of public buildings, and the disposal of real property. Our Federal Supply Service is concerned with the management of personal property, all phases of the supply problem, and all phases of the utilization and disposal problem. Our National Archives and Records Service will concern itself with all phases of records management, another neglected field in the Government that has to be developed.

This is a little aside from the main topic, but I think it will be interesting to all of you to know that there are about 20 million cubic feet of government space that is now used for the storage of records. That is the equivalent of six Pentagon buildings. At the present time, we are retiring about 1 million cubic feet a year and adding another million cubic feet, so we are just remaining static. You can see that there can be tremendous savings to the Government if we can, in the course of the next five years or so, cut those six Pentagon buildings down to two or three.

Our Community Facilities Service is concerned with the various programs that relate to loans, grants, and advances to nonfederal public bodies for various public works.

Chart 2, page 20.--As to the external aspects of our job, you will recall I said earlier that Mr. Larson regards his job basically as one of providing the ground rules and not of building up a big central empire.

On the left side are the GSA regulatory functions.

Next are the property management activities: to prescribe overall regulations and policies; to promote maximum utilization; to delegate authority and prescribe responsibility (that delegation means external delegation); to survey the practices and results. In that connection, we do not regard ourselves as policemen. We hope that we will be, as our name implies, a service agency and that, by doing these surveys, we will be able to find where an agency has an excellent practice and communicate that to other agencies so that they may adopt it. In other words, we hope to be a channel of information among other things. The next is to prescribe standards and specifications. I will speak about that a little later on because we have going on right now a very cooperative program with Admiral Ring and some of his group in developing standard specifications. The next is the establishment of inventory levels. In connection with the establishment of inventory levels, the act provides that we shall establish inventory levels in cooperation with the heads of the departments concerned. So that we cannot force--and we should not be allowed to force--an inventory level on any other agency, because that is a mixed question of property management and of operations. It is to be done as a joint venture, and, thereafter, our power is limited to reporting to the Congress.

The records management activities are to improve the practices and control, to establish retirement standards, and to survey records and practices.

By doing these things, which will have their impact on all executive agencies, we hope to achieve uniformity and consistency and maximum property utilization; to minimize purchases, which aim, as you all know, is one of the things that the Congress is particularly insistent upon. They are hopeful, and we too, that we can minimize purchases by maximum use of the property we already have; to eliminate overstocking and spoilage; and next--and I think we all agree this is essential--to simplify so that we will have simplified and effective practices; and following that, necessarily, to reduce the paper work; to effect space and labor economies; to increase vendor participation; and to increase public service.

Chart 3, page 21.--I will pass over this chart briefly. It is just to illustrate what has been the purchasing by the General Services Administration, through its predecessors, during fiscal 1949. Military purchasing in fiscal 1949 was 7.3 billion dollars, which was 82 percent of the total of 8.9 billion of government purchasing. General Services purchasing amounted to 673.9 million, which was approximately 7.6 percent of the total for the Government.

I would like to mention that program to follow up what I said before about centralized purchasing. As I say, we recognize that there are many types of purchasing which cannot be done centrally because of specialized requirements. On the other hand, there are certain types of purchasing which we all recognize, even though they have a military aspect, can and should be done, perhaps essentially by civilian agencies, centrally. An example is the strategic and critical materials program, which was developed cooperatively by the Munitions Board and the former Bureau of Federal Supply and which was carried on that way even before Public Law 152 was enacted.

Chart 4, page 22.--I am sure that, if Admiral Ring were here, he would agree with me that the next thing to mention among the elements of the supply program is the matter of cataloging. I am sure, also, that Admiral Ring would agree with me--or perhaps I should say I would agree with Admiral Ring--that cataloging is one component of the supply problem; it is not a separate enterprise by itself and should not be puffed up as such. It is one of the tools which should be intermeshed with the other groups, but it is an essential. And that is why we have put on this chart the key position of commodity cataloging for realizing the objective of Public Law 152. Through an efficient cataloging system, we will get purchases at minimum cost. That will be the key to the reduction of new purchases, again, to the maximum utilization of property, to the reduction of warehouse space, to the reduction of inventory levels, and inventory control.

As you know, under Public Law 152, the Administrator of General Services is charged with the basic responsibility for developing a standard Federal catalog. He is required, however, to coordinate his efforts with those of the Secretary of Defense to eliminate duplication. So far as I am aware, that arrangement is going ahead very cooperatively, with, we are thankful to say, the Department of Defense taking the major portion and the lead in it, that is, because of the greater requirements of the Department of Defense and the fact that it was further advanced in the field. But again I want to emphasize to all of you that it is certainly Mr. Larson's thinking--and I know it is Admiral Ring's thinking in the Munitions Board--that cataloging is one inseparable part of the over-all supply problem. It is not, and should not be, a separate operation.

Chart 5, page 23.--This chart illustrates the job of developing a Federal catalog system. In general, there are the 6 million items which are to be screened by the Munitions Board Cataloging Agency to develop the Federal supply catalog of 3 million items, which figure is the target. There are the 3 million which it is hoped will be developed. The 500,000 block represents the solely civilian agency use. There are the million items which are civilian agency and military common-use items. There are 500,000 which are noncombat and science items of 1 million.

I think here, again, we have an illustration of the possible areas where, on the one hand, we have a solely military interest, while in the other million, we have a mixed military and civilian interest which is susceptible of treatment under a uniform system.

Chart 6, page 24.--Following cataloging, I would like to mention, briefly, standard specifications. It is the belief of a great many of our people--and I know it is the belief of a great many of your people--that, by the production of standard specifications, we can do several things. One is to reduce the costs to the Government by inviting closer bidding and closer competition if we can write such specifications that a large number of bidders may have an opportunity to come in and bid. Secondly, and this plays a part in another phase, we feel that standard specifications will be a help to small business. As you know, under both the Armed Services Procurement Act and under Title III of Public Law 152, we are all under a mandate to give a fair share of procurement to small business concerns.

These are the Federal specifications which have been established to date, some 2,050. This is the accumulated backlog of requests for specifications, 1,415, and the requests continue to accumulate. This is the program for 1950, 1951, 1952, and 1953 in which it is hoped we can lick that backlog. That program also is continuing as a cooperative enterprise between the military departments and the General Services Administration.

Chart 7, page 25.--Another phase, an inseparable phase again I would like to emphasize, of the supply problem is traffic management. There have been all kinds of estimates of the amount that can be saved by a uniform system of traffic management. I don't know whether we can ever reach those results. We hope to get part way.

As you perhaps know, prior to Public Law 152, there never was any affirmative statutory responsibility in anyone to develop a traffic management system. That responsibility was placed upon the Administrator of General Services by Public Law 152. Again we hope that it will be carried out by a cooperative means and again I want to emphasize that, contrary to the views of some people, it is certainly Mr. Larson's thinking--and I know it is Admiral Ring's thinking--that traffic management should not be set up as a separate empire of its own but should be merged in the common treatment of the supply picture. I might say that also is one of the areas that is to be more precisely developed in accordance with the policy statement.

For the time being, we have an informal arrangement with the Department of Defense and the several JAG's offices as to traffic management cases that come before regulatory bodies. Where they affect the military departments solely, the military departments will continue to

handle those cases under delegation from us, which we will issue to them whenever they request it. Where they affect other agencies, we will sit down with them and see what is the best and most practicable way of handling them. By that I mean, there will be only one representation for the whole Government; but whether that will be done through GSA people or, perhaps, the Army people or the Navy people will depend entirely on what kind of case is involved, who is the principal party in interest in that case, and who has the people available effectively to try the case at the time.

Chart 8, page 26.--Fred Muncy asked me, in this connection, if I would speak briefly about the workload for utilization of excess personal property. I think this chart gives you a bird's-eye picture, at least, of the problem. Here is the declaration of excess. This is in terms of numbers of declarations; In 1949, 17,000; 1950, projected to 25,000; and 1951, projected to 33,000. So that you see the declarations of excess, according to our projections, are on the increase. We think the increase will result from more intensive screening of property and reduction of current inventories. Similarly, the acquisition cost of that property correspondingly increases.

That shows you that, if these work out, this declaration of excess will accomplish both the reduction of inventory and the making of property which is excess to the needs of one agency available to another agency and, thereby, perhaps, lessen the need for further new purchases.

Chart 9, page 27.--This chart is a bit off the subject of supply, but it is interesting to me and it has been interesting to others. It has to do with the problem of records retirement that I mentioned briefly before, and the estimated costs and savings. We have 11 million 600 cubic feet of records which are programmed for retirement during our next five-year plan. That figure represents a little better than three of the six Pentagon buildings I mentioned. The annual maintenance cost of those 11 million records is 38 million dollars. In 1951, we hope to save 3 million dollars by retiring records; in 1952, we hope to save another 11 million dollars; in 1953, another 19 million dollars; in 1954, another 26 million dollars; and in 1955, 35 million dollars--that is, in the cost of the maintenance of the records. In addition, there will be other efficiencies achieved by freeing that space and making it available for other uses.

This is aside from the supply problem, but I am sure it is a phase of activities that sooner or later a great many of you gentlemen will be interested in, in your capacities, and it is one which has been neglected.

I think my initial time for presentation is running out, but I do want to mention one or two more things in connection with Public Law 152.

One is a provision in the act which permits exchanges of property. You all recall that, under the old law, various agencies had specific limited powers in special situations to exchange when purchasing new property. Those provisions, by and large, were repealed by Public Law 152, and a new provision inserted which permits all agencies to exchange, under regulations to be prescribed by the Administrator. We are now in the process of developing a permanent regulation. That has been drafted by our people in cooperation principally with some of the military people and is about ready to be sent around for formal comment and screening prior to issuance. That is another field that I want to mention because it has aspects of great savings.

Before closing, I would like to make one other comment, and that is with respect to Mr. Larson's policy concerning regulations, because, as I say, it is his view that he is charged by the Congress with providing the ground rules of the game. We are going to try, in so far as humanly possible, to do the initial drafting of regulations with very small groups consisting of one or two laboring people from the principally affected agencies and that is all. When that initial draft is prepared, it will then be further screened within General Services. At that point, a second draft, which will be, we might say, the GSA proposal, will then be sent out to all interested agencies. They will be given a full opportunity to review it, to scrutinize it, and to send their comments, and we will try, in so far as humanly possible, to reconcile and to honor their comments.

I would also like to mention, breifly, our proposed procedure in connection with standard forms. We intend to follow the same procedure with respect to standard forms. When it comes to the issuance of standard forms, our present thinking is this--and this is the precise arrangement that we worked out in connection with the first form, the supply contract: It will be issued by the Administrator to be effective on a given date for permissive use by all agencies, with the proviso that on a subsequent specified target date, which, in the case of the supply contract, we have fixed at the end of a six-month period, it will then become mandatory pursuant to a further order. It is our hope that during that six-month period of permissive use, we can find out, and you folks can find out, from actual operation what bugs, if any, there are in that contract and what deviations may or may not be required because of special situations. So that when the six-month period is over, and the mandatory date arrives, we can incorporate in the contract such changes as the operating experience has dictated are necessary, and in the further order provide for such deviations as the operating experience dictates are necessary.

I believe that brings me a little over my time for presentation. I know that I have skipped a number of things. I skipped Title III of our act completely because it is practically identical to the Armed

Services Procurement Act, and I am sure you are all very familiar with that. In any event, so far as negotiated procedure is concerned, the military departments will operate under the Armed Services Procurement Act and not under Title III.

I did skip one thing in general which I should like to mention. You folks, of course, are continuing to develop the Armed Services Procurement Regulation to carry out your Procurement Act. We are starting to develop our own procurement regulation to carry out Title III. Because of the differences in requirements of civilian and military agencies, there are going to be some differences between those two regulations, but, in so far as possible, we are going to try to follow the Armed Services Procurement Regulation.

I have finished my formal presentation, General and gentlemen, but I am ready to be beat over the head with any embarrassing questions that any of you may have.

MR. MUNCY: We are ready for your questions.

QUESTION: Could you give us an indication of the approximate size and strength of the GSA--that is, the various agencies--and have you developed out into regions and field offices? I don't want anything definite, just approximations.

MR. ELLIOTT: By "size and strength" I assume you mean personnel complements.

QUESTIONER: Yes.

MR. ELLIOTT: There are approximately 22,000 people, of whom the great majority are in the buildings management part; that is, the people who run the buildings--the janitors, the workmen, the repairmen, the cleaning women, and so on. They, I believe, comprise perhaps 13,000 of the 22,000.

At the present time, we do not have General Services Administration field offices as such. Each of the former components has field offices. The former Bureau of Federal Supply, now the Federal Supply Service, for instance, has 10 or 12 which supply centers in the country. Public Buildings has offices. War Assets has. But we are now in the process of setting up GSA regional offices which we expect will be divided into 10 regions and into which these several field offices of the several components will be merged to have integrated field offices. I cannot give you an exact date on that, but I would estimate that they will be established with the next 60 to 90 days.

QUESTION: Mr. Elliott, did I understand you to say that the Secretary of Defense has authority to exempt the military from procurement of any item through General Services Administration?

MR. ELLIOTT: That is correct. As I recall, the language of the act is that the Secretary of Defense may, unless the President otherwise directed, exempt the military establishment from any of "the preceding items," and the preceding items are in section 201 which relates to procurement and supply.

By the President's letter of the first of July to the Administrator, to the Secretary of Defense, and to the Director of the Bureau of the Budget, he directed the Secretary of Defense not to make any exemptions. He said the General Services and the military departments should continue the existing pattern; that is to say, where the former Bureau of Federal Supply was doing procurement of common-use items for the military, that arrangement should continue; where the military was buying its own, that arrangement should continue. He said, at the same time, "I want you boys to sit down and get together and develop new areas of understanding under the new arrangement," the first step in which has been the general policy statement.

QUESTION: Mr. Elliott, the powers which that act gives the Administrator are very broad. If we had an ambitious Administrator and a President who is willing to go along with him, would it not be possible for them practically to take over the supply system even of the Armed Services?

MR. ELLIOTT: I will answer that in two ways. First, I think it would be theoretically possible but practically impossible. Secondly, I believe the same charges--perhaps "charges" is a bad word to use-- were made relative to the establishment of a Department of Defense and of an Office of Secretary of Defense. But the Congress did establish the Secretary of Defense, and I am not fearful of it.

I think, sir, in further answer to your question, if what you fear should happen, and the people of the United States didn't like it, the people have it in their power to correct the situation at the next election.

QUESTION: Mr. Elliott, on one of your charts you indicated that about 82 percent of the fiscal government purchases were military. Obviously, quite a few million purchase transactions are involved, and it would conceivably be a little difficult for any one agency to conduct that large a business. Isn't there a point of diminishing returns there? Or do you conceive of GSA people as being able to handle the whole thing?

MR. ELLIOTT: By "handling" do you mean centralized procurement?

QUESTIONER: Yes.

MR. ELLIOTT: On the contrary, we feel very definitely that we cannot and that we should not do it all on a centralized basis. We feel that it is a matter of prescribing general ground rules, and then centralize only as to certain types. There are some other special types of supply items that affect almost all agencies but affect the military departments to a greater degree which are not susceptible either to centralized procurement or even to a uniform system.

If you will recall, in the general policy statement which was signed by the three interested parties within the last two weeks, there is this sentence: "While it is recognized that the great bulk of military procurement in both peacetime and wartime will continue to be handled by the military departments themselves, nevertheless there are certain procurement areas and other areas of effort...where it will be important during peace and war for the military departments to continue to depend upon the General Services Administration." So there is a clear recognition that the military departments will continue, both in peace and war, to handle the great bulk of their own procurement.

QUESTION: Mr. Elliott, what part will the General Services Administration play, if any, in laying down policy for procurement by the United States of materials in foreign countries both for use in the foreign countries and for use in the United States?

MR. ELLIOTT: If it is procurement in foreign countries for use in the foreign countries, I don't imagine we will play a very large part, because we are not particularly equipped to do that. That is an operational problem there in the foreign country. If it is procurement in foreign countries for use in the United States, there, I think, we will continue to play a considerable part, as we are now doing in connection with strategic and critical materials in effect as a service agency for the Munitions Board. In that case, the Munitions Board pretty much lays down the rules of the game as to what is to be purchased and what is to be stockpiled, and we do the job for it. That is a program which, as I said before, antedated Public Law 152.

QUESTION: Has the overhead cost of 12 percent been eliminated from your operating procedures?

MR. ELLIOTT: That is a very interesting question. I am sorry that I did not speak about that before. Of course, the cost cannot be eliminated. The charge may be eliminated, but there is going to be an expense.

Public Law 152 provides, in connection with the General Supply Fund, that the General Services Administration may, in establishing prices to other agencies, charge direct costs, but that we ourselves are to bear indirect items of expense, which we will get from appropriated monies. Our accountants and the Bureau of the Budget's accountants have been going into that. My guess is that under the present law it will run to about 7 percent.

There is some thinking for the future of the possibility of further legislation which would eliminate that charge completely. It would, however, take further legislation, and I don't believe the thinking has finally solidified on that point. But under the present law, as I say, we bear the overhead charges, which we are to get from appropriations, and are allowed to, and I would say, in effect, have to, charge direct costs. So that instead of 12 percent, for the time being, it will probably run about 7 or 8 percent.

QUESTION: May I pursue that just a little further? The various organizations of the Government usually buy from corporations that have standard prices. In other words, the price which the Army, Navy, and Air Force get would be the same price as the GSA would be able to get on a standard item. Take a transformer as an example. You have to charge 7 percent to the Air Force, the Navy, or the Army over and above the price which they themselves would have to pay for that item. So they can buy 7 percent cheaper on the board.

MR. ELLIOTT: I am not quite sure I would agree with that, for two reasons. One is that we think, under some of our standard open-end contracts, that we do get somewhat of a better price than, perhaps, a department would get for a spot use. I am sure that is true in some items, but it may not be true in other items. I can mention several where it is true. Secondly, there is the matter of stocking and having these supplies of one kind or another, such as transformers, available. Perhaps the Department of the Navy, at one post, could go to a store and buy a transformer at the same price, but the Navy would have to do certain stocking of that for its use, so that it would incur an expense which would be equivalent to the 7 percent handling charge.

It is our thinking at least that the handling charge is something that we are bearing for 7 percent that, perhaps, would cost an individual agency more, on top of the price.

I would like to mention, in that respect, tires as an illustration of where we definitely have a cheaper price because we have a contract with some independents. Unfortunately, a lot of agencies--I think it is more nearly true of the civilian agencies--are not buying those tires, except for emergency purposes, the reason being that, if they buy a standard-brand item which has dealers all over the country, they can get tires put on free.

QUESTION: There is some thought that we in this country generally follow the British lead by about 25 or 50 years. With that in mind, could you give us some thoughts of comparison or contrast between the General Services Administration and the Ministry of Supply in Great Britain?

MR. ELLIOTT: I am sorry, but that is a question I am just going to have to duck, not because I am afraid of it, but because I am completely ignorant of the operations of the Ministry of Supply.

COMMENT: I would just like to say that, as I see it, there is no relationship or likeness at all between General Services Administration and the Ministry of Supply.

MR. ELLIOTT: Thank you.

COLONEL McCULLOCH: Sir, in meeting your assigned responsibilities in acting as a clearing house in transmitting information relating to the efficiencies or inefficiencies of any procurement policy or practice followed in any of the various agencies, won't you necessarily have to set up some sort of inspection service to get the information that you need in order to transmit it to other agencies?

MR. ELLIOTT: You put me on the spot a little with that one, Colonel. I think the answer is "yes," but, of course, an inspection service is a bit like an accordion; You can expand it to have a whole swarm of secret agents snooping into everybody's business--and that we are not going to do--or you can limit it to a few specialists who will follow up reports and who will sit down cooperatively with the operating people in the other agencies so that they can understand what is being done. It is that latter type that we will have to do.

I agree with you, of course, that we cannot sit in an ivory tower and depend wholly on reports. We must have people going around, but I want to emphasize that those people are not going around so much in the role of policemen as they are going around in the role of consultants and specialists to help people.

QUESTION: Sir, doesn't that duplicate one of the functions of the Bureau of the Budget?

MR. ELLIOTT: No, not in property management. The Bureau of the Budget had to, and will continue to, operate in a great many top-management fields because no other agency was set up to do it. The Bureau has done an admirable job of stepping into the breach and holding it where there has been a vacuum. But now, with the passage of Public Law 152 and the creation of the General Services Administration, it is expected that the General Services Administration will perform, for the

President, the management activities in the field of supply, utilization, and disposal of property, and that the Bureau of the Budget will not operate in that field. That, of course, is the view of the Bureau of the Budget too.

The Bureau will not wholly relinquish its interest, naturally. Everybody is a man of good will, but there are bound to be areas of disagreement between the Administrator and other agencies--we hope there will be very little--and in those areas, it is expected that the Bureau of the Budget will sit down and, perhaps, act as an arbitrator.

QUESTION: Mr. Elliott, you stated that your employees now number approximately 22,000. Has there been any rough estimate made of what the total force will probably be when you are fully implementing this new idea?

MR. ELLIOTT: I am afraid I will have to give you a general answer to that question rather than anything very specific. At the immediate moment, we have a slight reduction in the number of personnel from the number we had on the first of July; the reason is that we are eliminating the backlog of the accumulated war surplus, people are being let out. War Assets is being liquidated. At the same time, we all recognize that it takes money to make money, and it is going to take people to develop some of these new areas of which we were speaking. It is going to take people to sit down and study and work out many problems. It is going to take people to develop traffic management. It is going to take people to develop cataloging. How many people and how soon, I don't know. But, again, I feel confident that it is not going to mount into any astronomical figures. It will be more in the nature of an accretion of a certain number of people who will be specialists in developing these fields, providing the ground rules, and making the studies, rather than a large operating empire.

I am afraid that is the best answer I can give you, sir.

QUESTION: Could you tell us briefly what the Administration's current views are on the kind of contract settlement statute the Government ought to have?

MR. ELLIOTT: I am not authorized to speak for the Administration. The most I can say on that is that conversations are currently going on between General Services and the military departments. We have certain ideas as to principle. I am sure it would be revealing no secret to say that it is likely the Comptroller General would not be in full accord with those ideas.

It is preliminary thinking at this point. We are having those discussions, and our two agencies are also going to discuss the matter

with the Bureau of the Budget. At some point, the Administration will make up its mind whether one is needed, and, if so, what kind. But at this point, I don't believe anybody could answer that question, because I doubt if it has been put up to the President, and he is the one who will have to make the final answer.

QUESTION: How is this system going to operate in war, let us say, with respect to procurement of standard tires? Is the military going to pool its orders, give them to you, and leave up to you the problem of expansion of the rubber industry, or are you going to turn over your contracts, let us say, to the military procurement agencies and let them place their orders and indicate their delivery points, and all that sort of thing?

MR. ELLIOTT: That is a very good question, sir, and some day it will be answered, but I am not the one to answer it today. That is one of the specific things that will have to be developed in connection with the study of areas of understanding. All I can do is to advert to the statement of policy and the sentence in particular which I read before, the end of which says, "...there are certain procurement areas and other areas of effort...where it will be important during peace and war for the military departments to continue to depend upon the General Services Administration." That is a statement of principle, and it is going to be up to task forces from the two departments to sit down and work out by mutual agreement the specifications that will carry out that principle.

MR. MUNCY: We are indebted to you this morning for coming down and being so patient with us and our questions. Perhaps you have gathered that some of your audience have rather specific problems on which they are preparing papers. Some of their pointed questions this morning have been shaped to that end.

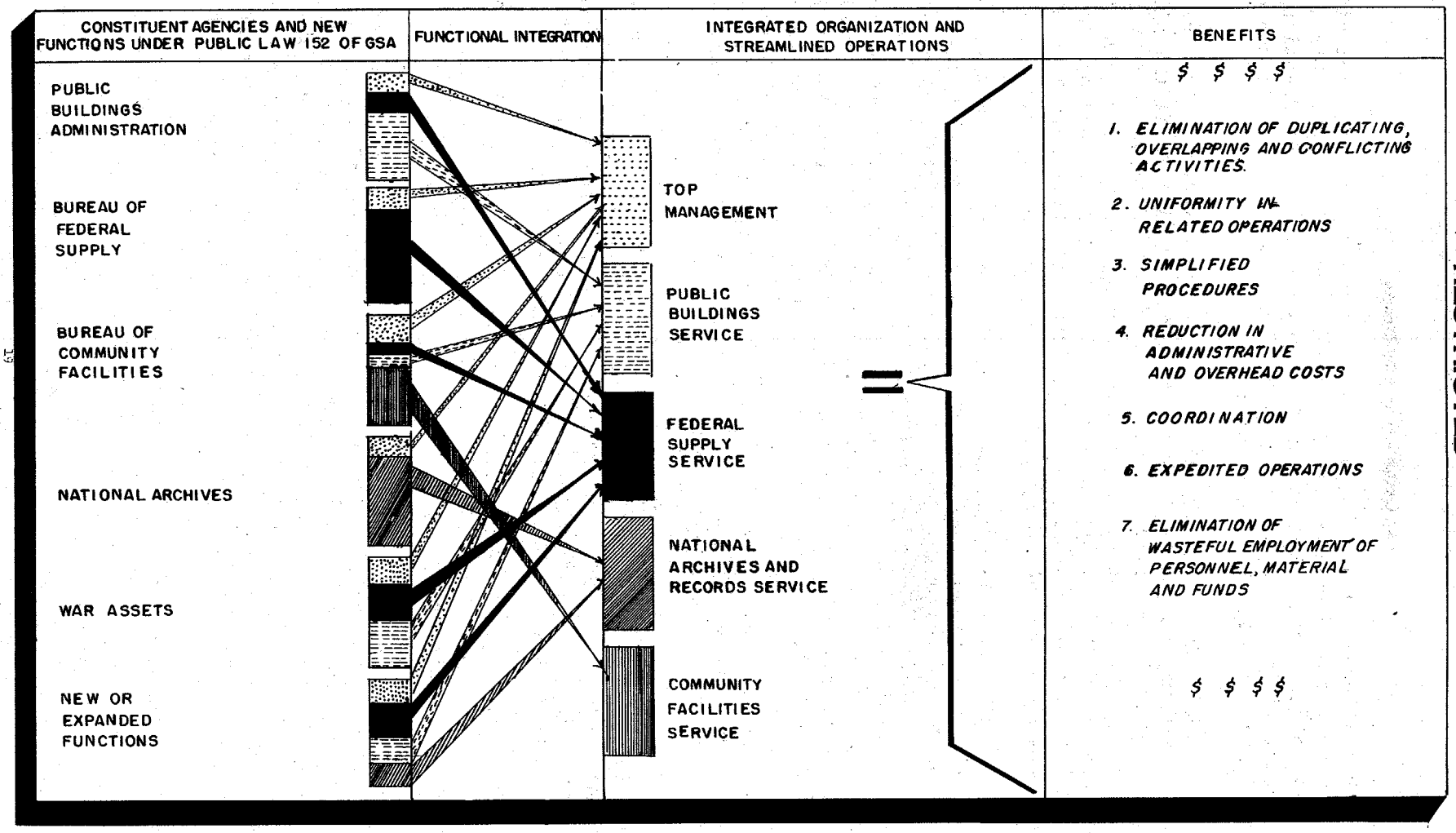
We do very definitely thank you for coming here, and, on behalf of the Commandant, the faculty, and students of the Industrial College, I thank you sincerely.

MR. ELLIOTT: Thank you all very much. I would like to say in that connection that, if any of you have papers in which you have special problems relating to General Services and you would like to have further information, and if you will call me, I don't pretend that I personally can supply the information, but I can always put you in touch with the person who is the specialist in that field in General Services and see that he sits down to help you if you need help.

(23 Feb. 1950--350)S.

CHART I

THE INTERNAL ASPECT OF THE GSA JOB OF PROVIDING AN EFFICIENT AND ECONOMICAL SYSTEM OF PROPERTY AND RECORDS MANAGEMENT



THE EXTERNAL ASPECT OF THE GSA JOB OF PROVIDING AN EFFICIENT AND ECONOMICAL SYSTEM OF PROPERTY AND RECORDS MANAGEMENT

CHART 2

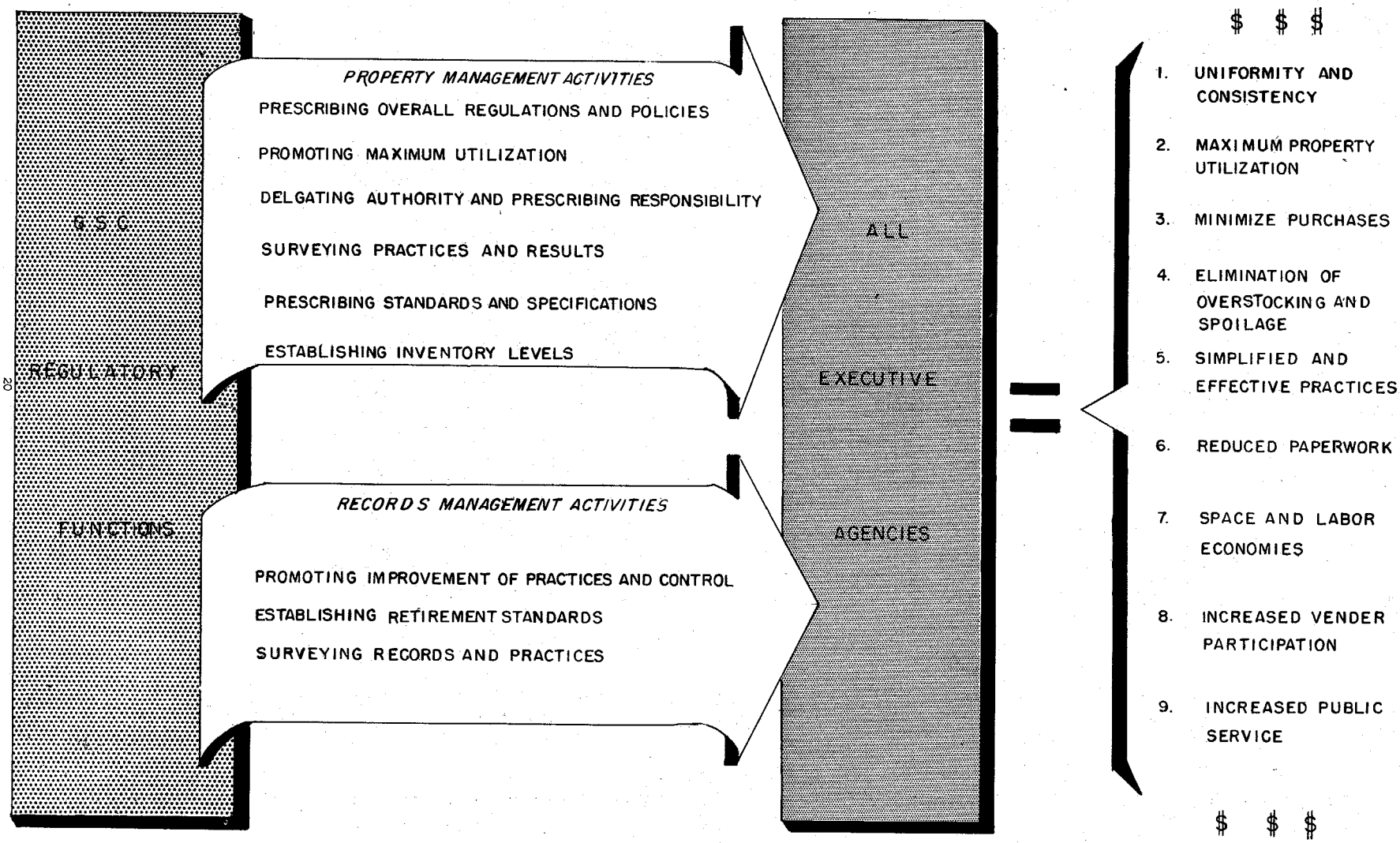
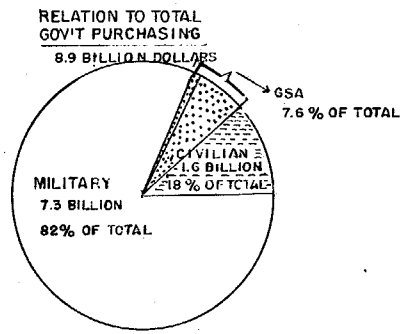
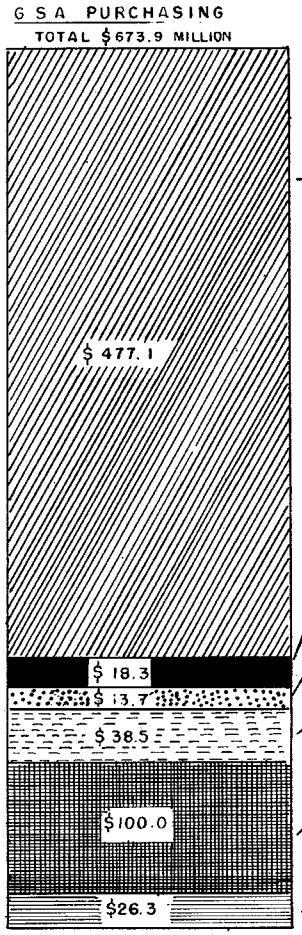


CHART 3

GSA PURCHASING

FISCAL YEAR 1949





REQUIREMENTS DETERMINED BY	CONTRACTED FOR BY	ORDER ISSUED TO SUPPLIER BY	SUPPLIER SHIPS TO	
MUNITIONS BOARD	GSA	GSA	STOCKPILE	PROGRAM PURCHASES
ECA	GSA	GSA	PORT	
GOVERNMENT AGENCIES	GSA	GSA	POINT OF USE	PURCHASES OF INDIVIDUAL REQUIREMENTS
GOVT. AGENCIES	GSA	GSA	POINT OF USE	CONSOLIDATED PURCHASES LOWEST PRICES - QUANTITY BUYING STANDARDIZES QUANTITY TRANSPORTATION SAVINGS - COMBINED SHIPMENTS
GSA CONSOLIDATES				
INDEFINITE QUANTITY TERM CONTRACTS	GSA	GOVERNMENT AGENCIES	POINT OF USE	FEDERAL SUPPLY SCHEDULE CONTRACTS LOW PRICES THROUGH CONTRACTING FOR TOTAL GOV'T REQUIREMENT STANDARDIZES QUALITY ELIMINATES CONTRACTING BY AGENCIES IMMEDIATE PLACING OF ORDERS
GSA	GSA	GSA	GSA WAREHOUSE FOR REDISTRIBUTION	STORES PROGRAM LOW PRICES - QUANTITY BUYING TRANSPORTATION SAVINGS - BULK SHIPMENTS ASSURES QUALITY THROUGH INSPECTION REDUCES ADMINISTRATIVE COSTS REDUCES INVESTMENT IN INVENTORIES ASSURES PROMPT AVAILABILITY OF SUPPLIES.

STRATEGIC AND CRITICAL MATERIALS

EXPORT (ECA) PURCHASES

SERVICE PURCHASES FOR GOV'T AGENCIES

CONSOLIDATED PURCHASES

FEDERAL SUPPLY SCHEDULE CONTRACTS

PURCHASES FOR STOCK

CHART 4

KEY POSITION OF COMMODITY CATALOGING

FOR REALIZING OBJECTIVE OF PUBLIC LAW 152

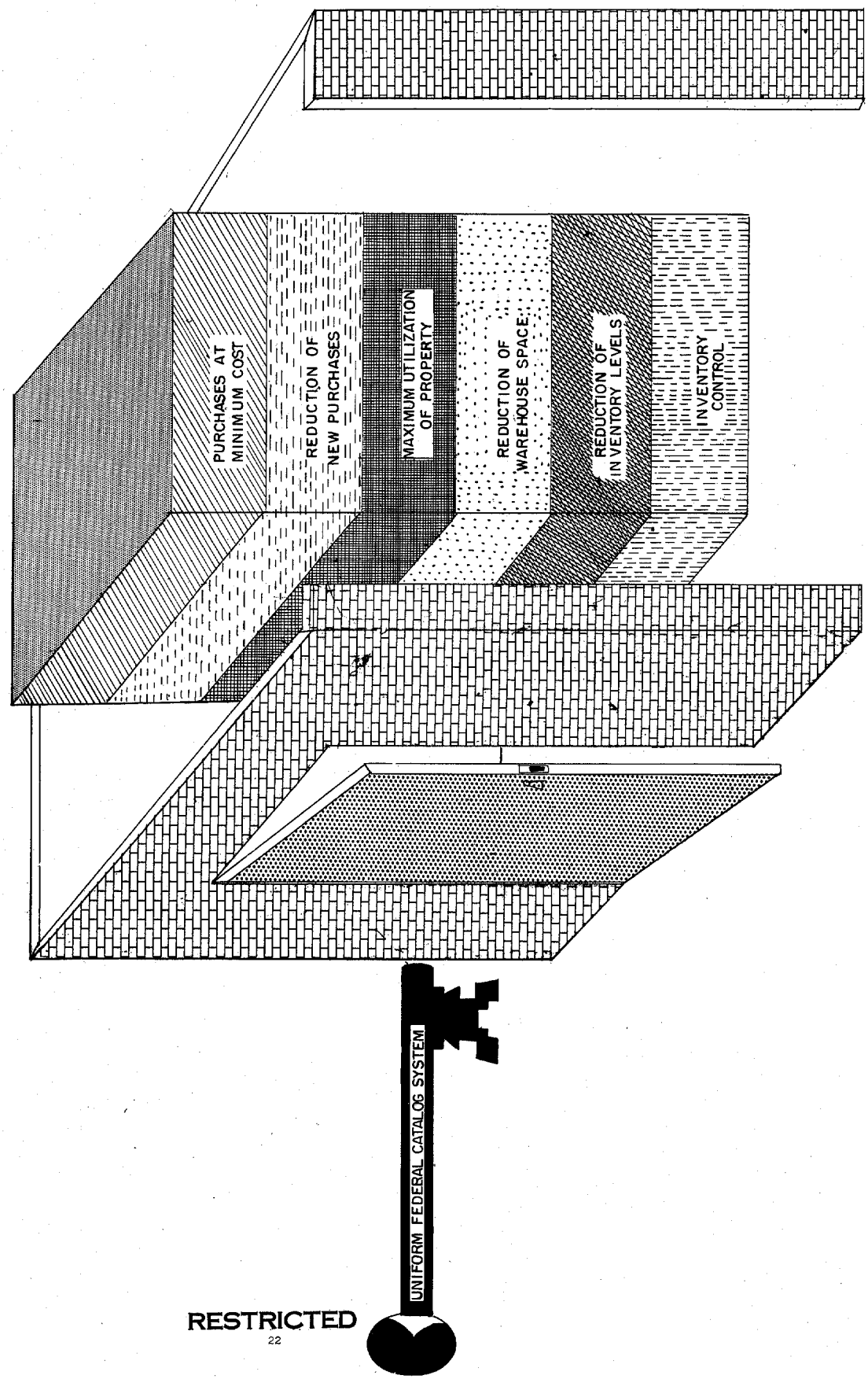
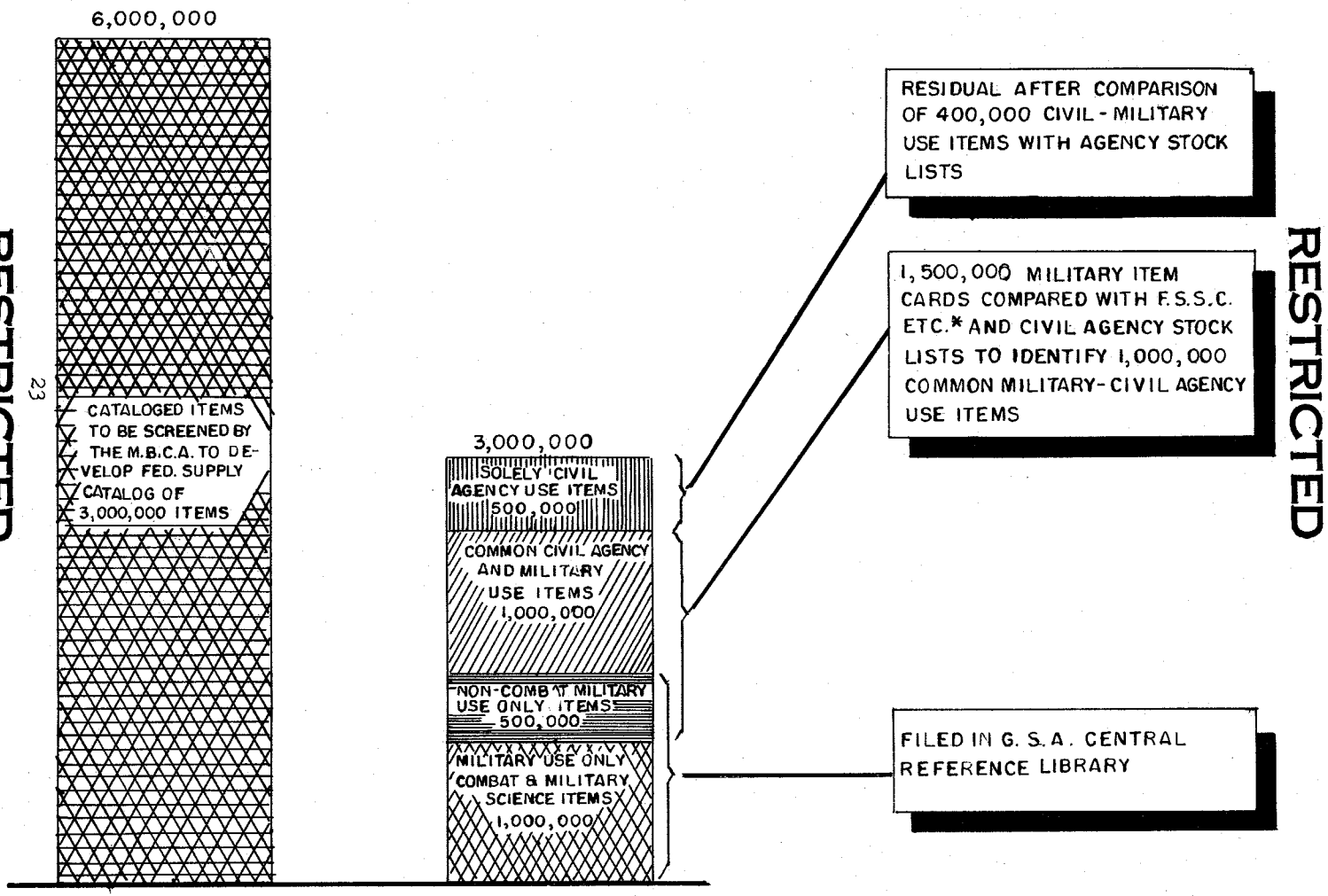


CHART 5

THE JOB OF DEVELOPING A FEDERAL CATALOG SYSTEM...



* FEDERAL SUPPLY SCHEDULES AND STORES CATALOG

RESTRICTED

RESTRICTED

1197

CHART 6

THE FEDERAL SPECIFICATIONS PRODUCTION PROGRAM

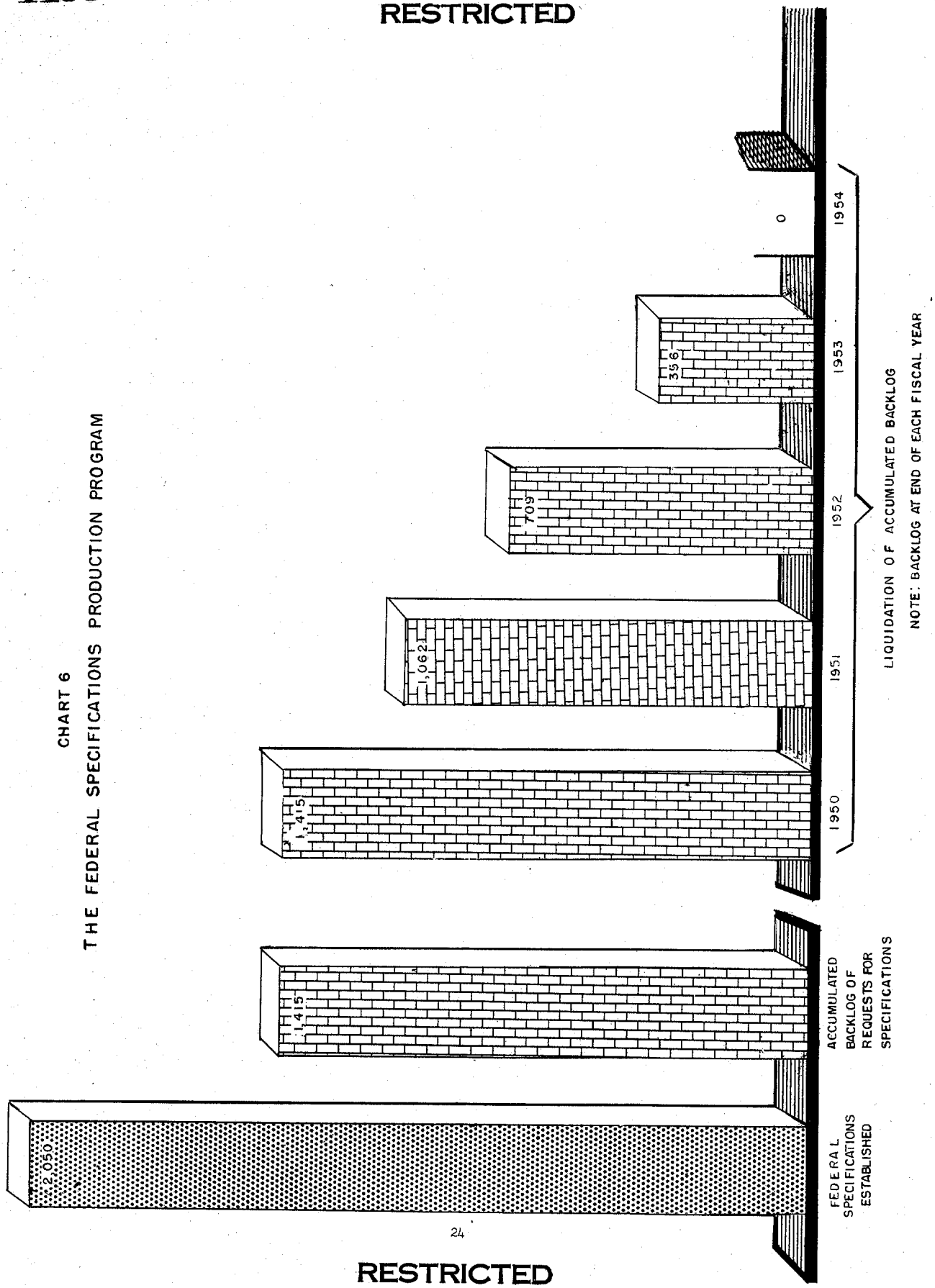


CHART 7

TRAFFIC MANAGEMENT

GENERAL SERVICES ADMINISTRATION - FEDERAL SUPPLY SERVICE

UNIFORM TRAFFIC MANUAL

+

STANDARDIZED ROUTINGS AT LOWEST COSTS

+

ELIMINATION OF DISCRIMINATION THROUGH RATE ANALYSES

+

CONTINUOUS REVIEW OF RATE CHANGES

+

REDUCED RATES THROUGH COORDINATION WITH PURCHASING OFFICERS

+

COMPLIANCE ENFORCEMENT OF TRAFFIC MANUAL

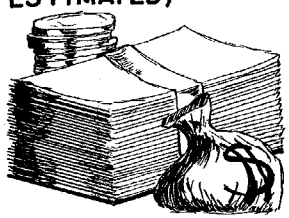
=

SAVINGS FOR TAXPAYER

$5,278,000

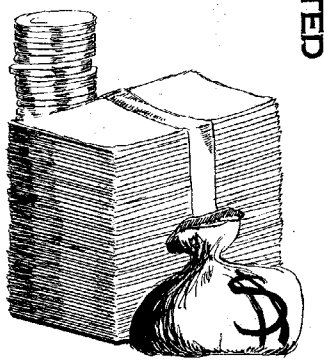
1949

$5,000,000 (ESTIMATED)



1950

$11,480,000 (ESTIMATED)



1951

CHART 8

WORKLOAD FOR UTILIZATION OF EXCESS PERSONAL PROPERTY

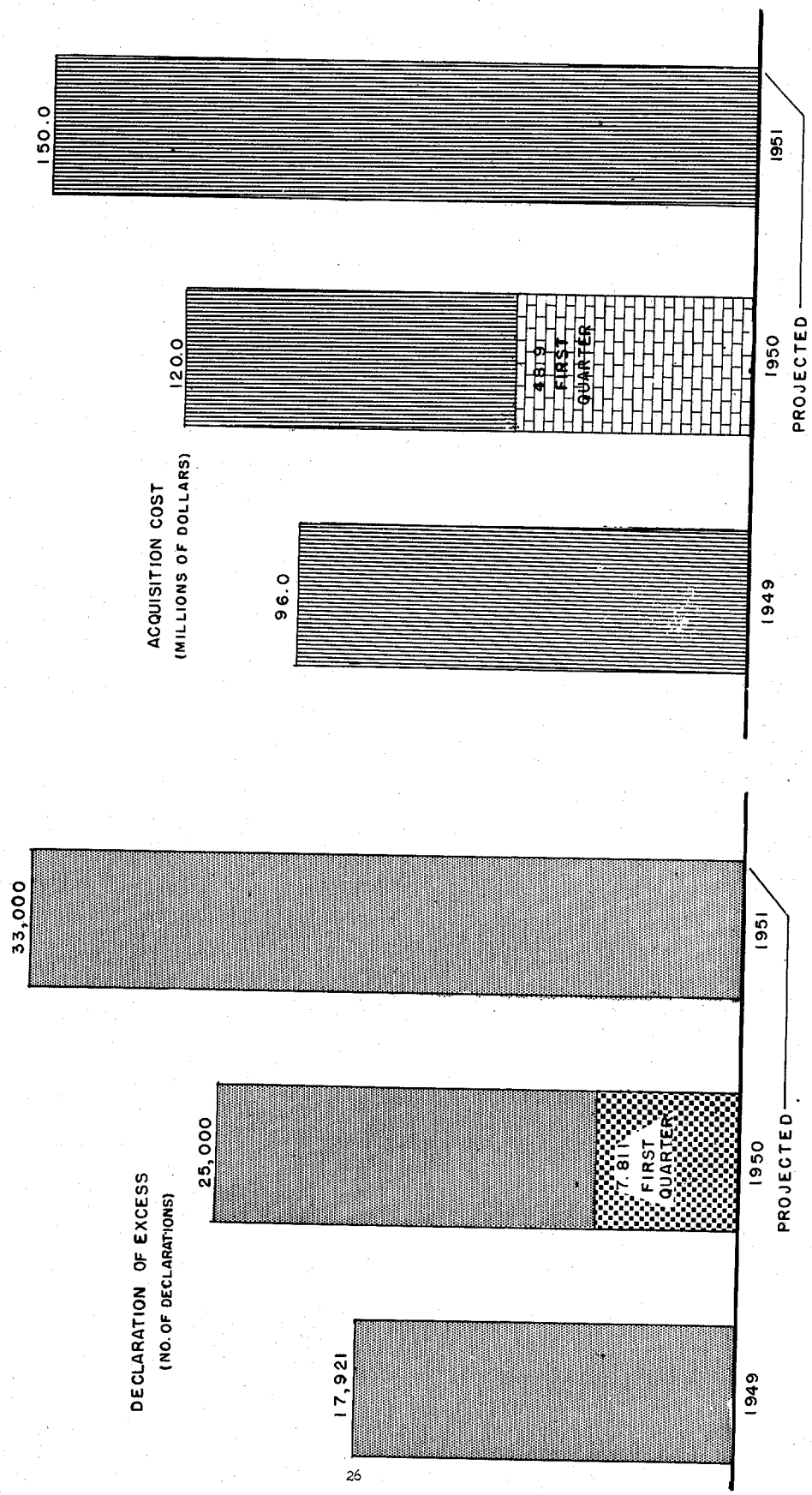


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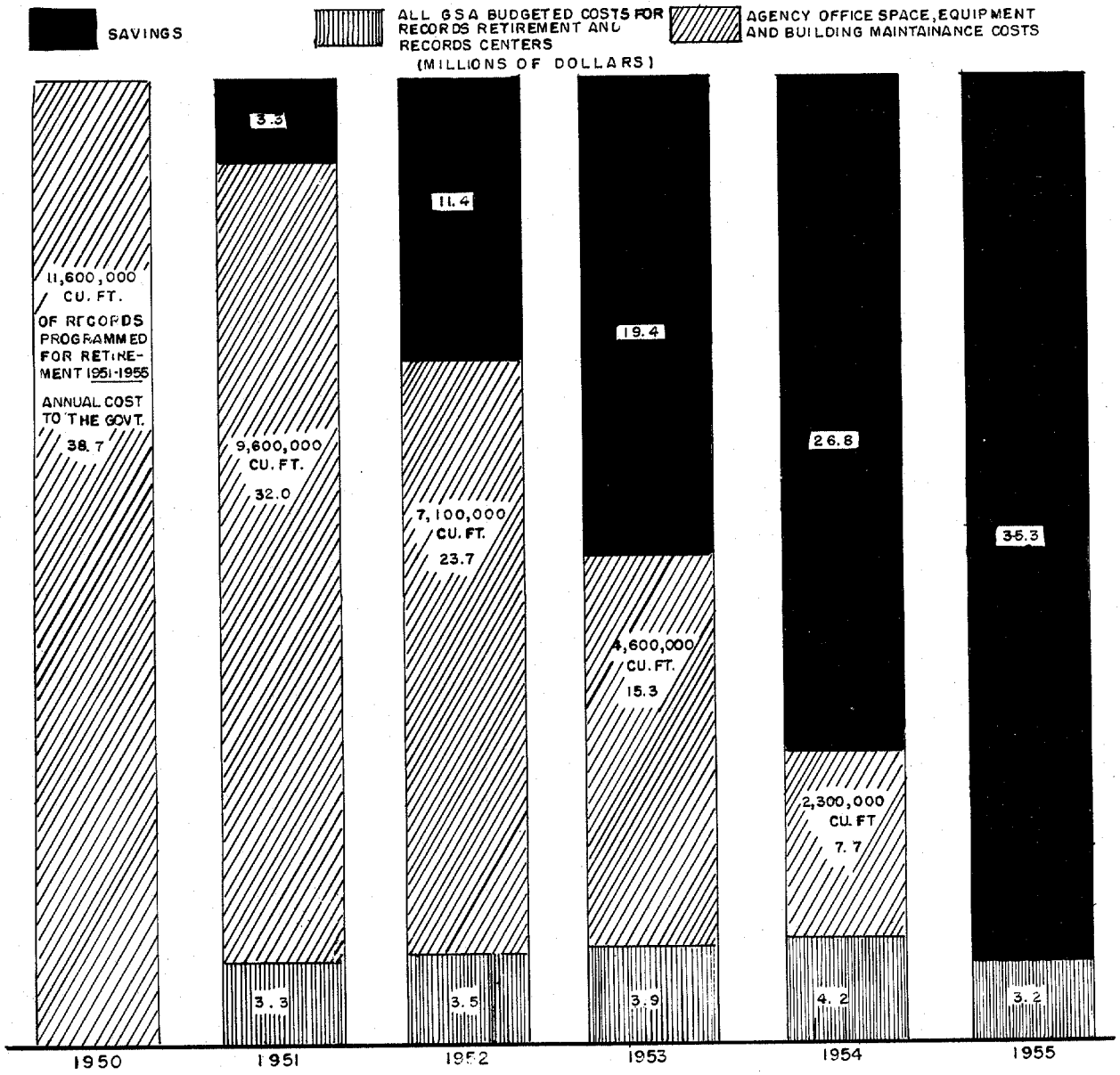
CHART 9

NATIONAL ARCHIVES AND RECORDS SERVICE

RECORDS RETIREMENT

ESTIMATED COSTS AND SAVINGS

5 YEAR PROGRAM



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