

MILITARY PROCUREMENT

22 November 1950

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Honorable Archibald S. Alexander was born in New York City on 28 October 1906. He was educated at St. Paul's School, Concord, New Hampshire, and after graduation from Princeton University in 1928 he received his LL.B. degree at Harvard Law School in 1931. He started his legal career as an associate of the law firm of Carter, Ledyard, and Milburn, New York City in 1931 and became a partner in 1940. He was a director of the New York Casualty Company, the Hoboken Land and Improvement Company, and the Hoboken R. R. Warehouse and S. S. Connecting Company. He is a trustee and officer in several educational, social and charitable organizations. In World War II he was commissioned a 1st lieutenant in the United States Army and served in numerous capacities, in both the Zone of Interior and overseas. His last overseas assignment was chief of Civilian Supply Control Section G-5, Headquarters, U. S. Forces in the European Theater. He was relieved from active duty as a lieutenant colonel and returned in 1945 to the law firm of Carter, Ledyard, and Milburn. He was a public member of the Department of State Senior Foreign Service Selection Board in 1947 and later in 1947 made a special investigation and report for the Atomic Energy Commission on matters of personal practices and security. On 22 August 1949 he became Assistant Secretary of the Army; on 24 May 1950 he was sworn in as Under Secretary of the Army. He is a member of the Munitions Board.

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GENERAL VANAMAN: Good morning, gentlemen.

It is fitting that, at the kickoff of this Procurement Course we become acquainted with a man, a leader, in this very important field. After all, men, more than systems, produce efficiency in procurement. Our speaker this morning qualifies as a leader and as a real authority in this important field, by his education, by his military experience, and by his experience in service as Assistant Secretary and as Under Secretary of the Army and as a member of the Munitions Board.

Secretary Alexander has exhibited, many, many times, a keen and intense interest in the activities of this college. Today he is taking of his very valuable time and energy to discuss with us "Military Procurement."

It is a great pleasure for me to present to the Industrial College and to our distinguished guests, the Honorable Archibald S. Alexander, Under Secretary of the Army.

MR. ALEXANDER: Thank you, General Vanaman, for your gracious introduction. If staying around Washington alive for 16 months makes one an expert, then I am an expert in this field.

All the time I have been here my principal duty has been the supervision, for the Secretary of the Army, of the procurement which the Army is doing. And in that connection, as a member of the Munitions Board, I naturally have had very close contact with the procurement people of the Navy and the Air Force.

Gentlemen, what I will have to say to you this morning necessarily is derived more from what the Army does than from what the two other services do, in so far as there are differences, but I think the principles are now the same.

I propose to tell you a little something about what procurement is in the general military picture, then give you a little of the history of how we got to the place where we are now, and then go into a little more detail, leaving time for questions afterward. Procurement, of course, is the purchase of the things needed by the military.

Somebody else makes up the requirements, somebody else does the research and the development, and somebody else determines how much money is available. The procurement people have a lot to do with

how much money is asked for, but nobody but higher authority, so far as I am concerned, really determines how much money there is.

So I am assuming that we in the procurement business have done our best to state a good case for the money we need to buy the things the using people have said they need to run the military, and that whatever amount of money the various people involved, including Congress, have thought the taxpayers could stand has been appropriated. I am not going to go into the fiscal side of the business. I am assuming that we now have the money. I don't always make that assumption, however.

That is what procurement is. It consists in getting the necessary things from this marvelous, productive land of ours, or, in some instances, from other lands.

There are two principles, it seems to me, that always run through procurement. The first is that you must get the right article, the one you have been asked to get, and you must get it by the right time. That is a principle that involves your looking toward the people who are going to use the things you buy.

The other principle is that you must get the most that you can for the money. In that instance, you are looking toward the taxpayers, including yourselves. You want to see to it that the military needs are gotten, not only well from the point of view of its being the right thing, but as inexpensively as possible.

Any time you get in a tough spot, think about those two principles, and I think you will be able, with your own common sense, to solve the particular problem.

A word now about the history. Prior to World War II practically all military procurement had been done on an advertised basis—all major procurement, at any rate—and it was done in 1939 or 1940 still on the basis of a Civil War statute. It had happened that in World War I much of the procurement was done through the French or the British, and, consequently, we did not have the same problem we found we were going in for in World War II.

World War II came along. It was found that there were many things we would have to buy that we could not buy by advertising, because they were not the kinds of things people were already making. So if we advertised and asked for bids, nobody would bid. Consequently, authority was given in World War II to negotiate practically anywhere.

At the end of World War II the situation began to look normal, and it was decided that we should not go back to the Civil War statute, that something better was in order, but, at the same time, that we

could not retain the World War II freedom to negotiate practically at will. So some extremely able people went to work on the subject. I think it was Secretary Forrestal who was perhaps the motivating force in this. And Mr. Andrews, who did a lot of procurement for the Navy during the war and was Assistant Secretary of the Navy right after the war, had a great deal to do with drawing up the new law and with seeing that it got through Congress—which is also an extremely important part of the business.

I would like to have you, in your spare time if you have not already done so, read the two lectures by my predecessors on this platform—one by Mr. Andrews, of whom I have just spoken; and the other by Mr. Koehler, now Assistant Secretary of the Navy in charge of Procurement. These two lectures were given to your predecessors last year and I think the year before, and they contain a good deal of the history and the rationale of the present procurement statute.

I will pass, therefore, rather fast over the history, except to say that the law that came out first in 1947 is a very remarkably fine piece of legislation. I don't think there can be very many instances of a tool handed to anybody by Congress to do the work that we have to do that is so well adapted to what we have to do.

There are two papers which, between them, I think are really the "bible" of the procurement business. The "old testament" of the "bible," I might say, would be the statute, the Armed Services Procurement Act of 1947, which was passed, and not amended since, as the result of the advice of the experts in the field. The "new testament," I think, would be the Armed Services Procurement Regulation (ASPR), which is not complete yet; but as much of it as has come out is the result of the joint work of the three military departments, with the assistance, I am sure, of the Munitions Board. The ASPR spells out in more detail what the statute itself provides.

If you will remember the two principles I stated to you, and if you can relate the problem to either of the two parts of the "bible," you will find that you will be able to come to the right solution on any specific problem that comes to you.

I might say, of course, before leaving the lawmaking part of this business, that unification, though we all assume it and take it for granted now, was a tremendous part of the new setup, and that it came along about the same time as the Procurement Act. The impact of unification on procurement was enormous and, on the whole, extremely salutary. I just want to remind you, when you are thinking about procurement, that it now must be thought of in the context of unification—of the expressed will of the country that the three services shall walk in step with one another, not compete with one another, and try to help one another to be efficient.

Out of the expressed will of the people, as stated by Congress in the Unification Act, there came certain supervisory and coordinating bodies. There is, of course, the Secretary himself and his deputy and assistants. There is the Research and Development Board, the Munitions Board, the Personnel Policy Board, and others that come up from time to time. And there is official recognition in the statute of the Joint Chiefs of Staff. Those organisms, between them, served to police and guide the efforts of the three services towards unification. Those organisms do not operate; they coordinate and set policies.

The one you are interested in, in the procurement side of the field, of course, is the Munitions Board. It consists of a Chairman, who is a civilian appointed by the President; and three board members, a representative from each of the three services, who must be an Under or Assistant Secretary of his service. The Munitions Board and its staff are supreme in the field of industrial mobilization and in the field of cataloging; they provide the guidelines on almost all business and industrial sides of armed services procurement. As a rule, however, they do not operate.

I might say, in passing, General Vanaman, that at the Munitions Board, as elsewhere in the Department of Defense and the services, your graduates are very well placed. And we are very grateful in the Munitions Board and in the services for the fact that our men have been to this college. My executive officer, Colonel Smith, graduated about two and a half years ago. The Chief of Staff of the Army also is a graduate of the Industrial College. There are Admiral Ring of the Navy and General Langmead of the Air Force, top Munitions Board staff members. You will find that everywhere your graduates are doing extremely well and are very much sought after. And it is partly to pay back some debt that we owe you that I am here today.

To come back to the practicalities of procurement, now that I have given you something of the history and background--procurement breaks up into two main categories: advertised purchases, by competitive bidding; and negotiated purchases. Advertised purchases are the ones that should normally be employed, and that is recognized by the law and the regulation. Negotiated purchases are the ones concerning which, when you find you have to go to them, you must be very careful, because they are generally the ones in which there are pitfalls.

Now I would like to give a few of the characteristics of, first, advertised, and then negotiated, contracts.

As to advertised contracts, it is assumed that, before you can advertise, the requirements have been established and you have the time necessary for advertising, because you cannot efficiently advertise and get the information out to the prospective bidders in less than 10 days; and, as a rule, 30 days is the period required for that.

Then, of course, you must be sure when you advertise that you get the advertisement out to as many of the people who might be interested in bidding as you possibly can. If you don't do that, there is no use in advertising. You must be sure that you get the maximum competition.

In order to be able to advertise, you must be sure that you can describe the item well enough so that the different people who are going to put in bids will be bidding on the same thing. Otherwise there is no possibility of evaluation of the bids when they come in.

Having been told that an item needs to be procured, you look for it on the Federal Supply Schedule. If it is a typewriter, or some such thing as that, you will find it is listed on the Federal Supply Schedule; and the General Services Administration procures that for all the government departments and agencies, civilian and military alike. If you find the item you want there, all you have to do is put your order in through channels and forget about it, because you know then that the item, the price, and so on, are going to be just what you need.

If the item is not on the Federal Supply Schedule, then you see whether you can advertise for it. If the factors I have mentioned are present so that you may advertise, then it is your business to see that the advertisement is disseminated as well as possible. You have a continuing duty to see that you have not left off the lists of prospective bidders you have in your offices, people who might very well be good bidders and add to the competition.

You put out the advertisement and the bids come in. You will find a regular form for the invitation to bid. When the bids are returned by the different bidders, the problem of selection, of which bidder to take, is what confronts you.

You must be sure, first of all, that the man has bid for the article for which you asked him to bid, so that when he delivers it and you turn it over to the user, the user will get the thing he needs.

You will find on occasion that it appears that one of the people who bid, when you check on him, would not be able to perform. One of the most difficult duties of the procurement officer is to turn down the low bidder, after advertisement, on the ground that he could not perform. You can see, without my elaborating, that when you do that you must be sure of your ground because you can be sure, otherwise, you will hear from the disappointed low bidder. And it is in that kind of case that the quality of the officer and whether he has the

courage of his convictions become very important. If it seems wise, in the judgment of the individual passing on the bid, not to take the low bid because he thinks his service will be robbed if he does, he must turn down the low bid and take the next lowest from a qualified bidder.

I might say that you have to go through certain protocol. The advertisement states that the bids will be opened at a certain time and place, and they have to be; they may not be opened before the time stated, and you must go out in a public place where the bidders can come in, and you must open the bids and read them. That, of course, is to insure that a bidder who is in fact bidding lowest and is qualified does not get left out or is not forgotten.

After you have read the bids, you then evaluate them, and, as I say, the award goes to the lowest bidder by law, unless he is not qualified to make the article. In that case it goes to the next lowest bidder.

There are two wrinkles that come in there. If you have equal low bids and one of the low bidders is small business and one is not, you must award to the small business concern--that is, a concern having 500 or less employees, counting the employees of that concern and its affiliates. Also, there are certain distressed areas certified from time to time by the Department of Commerce, which are areas where the unemployment rate is unduly high; and if one of the two or more equal low bidders is from a distressed area, you must make the award to that bidder. If there are two or more equal low bids and not one of the bidders is from a distressed area or is small business, you may then flip a coin, as I understand it.

The second type of purchase is by negotiation. It is considered a rule that both the businessman and the Government will best be served by advertised competitive bidding, but there are exceptions; and those exceptions permit you to negotiate. The exceptions are right in the statute, and I will pass quickly over them.

The first one applies in case the President or Congress has declared a national emergency. Whatever one's view on the matter may be, this is not now formally a national emergency, so this particular exception is not applicable at the present time. But when higher authority, in its wisdom, decides we have reached a particular point that is a national emergency, then any contract, as I understand it, may thereafter be negotiated.

The remaining exceptions under which you may negotiate if you find yourself in the particular situation described are peacetime exceptions.

The first one is that the public exigency will not admit of the delay incident to advertising. That is, in a way, clear on its face. If you have to procure a certain item by a given date and there is not time to advertise, get the bids in, and evaluate them, you may negotiate.

I don't need to tell you that it is advisable to have your record clear if you determine to negotiate under this public exigency clause, because the minute you do not advertise somebody may be interested in trying to make trouble for you. He won't make trouble for you if you are doing the right thing and if you have such a record that you can prove it afterward. I cannot overstress the importance of that. You may do the best thing in the world, but if you cannot easily prove it by a written record six months or a year later, it won't do you any good.

The next exception is in case the aggregate amount involved does not exceed \$1,000. That does not need any explanation.

The next one is for personal or professional services. It is considered that human individuals do not like to bid against one another to see who will do a job for the smallest amount of money. Consequently, it is recognized that when you have to hire somebody you may do it on a negotiated basis.

The next exception has to do with any service to be rendered by any university, college, or other educational institution. Colleges fancy themselves to be much nearer individuals than business corporations, and they also are disinclined to bid against one another to see who will work for the Government at the lowest price. They persuaded Congress to put in that exception. And, of course, they are right.

The next is supplies or services to be procured and used outside the limits of the United States and its possessions. If you have a ship in Palermo, or an air base in Dhahran, or an Army installation in Europe, it is not expected that you will send out advertisements throughout the United States to your possible suppliers.

Medicines or medical supplies.--I am not able to give you the reason for that exception, but it may come in handy.

Supplies purchased for authorized resale.--That is the sort of thing you would put in a post exchange or ship's store.

Perishable subsistence supplies.--That is certainly selfexplaining. You cannot wait to advertise and evaluate bids if you want to buy a perishable.

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Supplies or services for which it is impracticable to secure competition.--There are, of course, many things that I think are called proprietary items, such as medicines and other things of that sort, that only one outfit makes. It obviously does no good to advertise. You had better go to that outfit if you have to buy what it makes and beat its price down just as far as you can.

Now we come to the remaining few, and as to the ones I am about to describe to you, Congress has restricted them to cases in which the agency head himself determines that it is not possible to advertise. As to the ones I have just described, you yourselves, or the officers under you, may decide that the thing is worth less than \$1,000, for instance, and therefore that you don't have to advertise. But in the remainder I am going to give you, you will have to pass a paper up to the Assistant or Under Secretary of the Army, Navy, or Air Force and get him to sign that it is not feasible to advertise and, therefore, a negotiation instead may be entered into.

The first of these relates to research and development.

The second relates to items involving classified information or other things that should not be disclosed by a public advertisement.

The next is in connection with standardization. You don't want to advertise for parts or for vehicles if you already have a good many of a particular make. You don't want to find yourself buying the cheapest vehicle on the market at the time, because then you will begin to find that you have about six different makes of vehicles without interchangeable parts in the same category of vehicles.

Then there is the case where it is determined by the agency head that not one of the prices on bids resulting from advertising is reasonable. That is a rather difficult one. But there are cases that arise, either because the bidders are in collusion or for other reasons, where you don't think the Government is getting a fair deal for its dollar if it accepts the lowest bid. Then you may negotiate.

The next one is where it is determined by the agency head that it is necessary to negotiate with a particular outfit or few outfits, rather than to advertise, because you want to do business with one or another of that category; and you want to do business only with those firms because they are firms you want to have in business with you so that, for example, in case of war their production line is set up to produce the thing that you need.

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The last exception is that you may negotiate when otherwise authorized by law.

Before coming to my conclusion, I would like to say that, whether you are advertising or negotiating, you have the same objective I stated at the beginning--to get the thing the user needs, by the time he needs it, at the lowest possible price. So that when an officer is obliged to negotiate, he is forced to drive the hardest bargain that he can.

And in that connection, for your own sakes, let me remind you to be very careful, as I have to be, too, not to take a cigarette lighter from such-and-such company. A single drink, I don't know; but you have to be very careful about your relationships with possible suppliers. Somebody came in and left me a lighter one day. Before I knew what he was doing, he had walked out the door. But I got it back to him.

I know you are going to get more detailed information on these buying practices in later lectures, but I would like to take about four minutes, if that is not too much, General Vanaman, to describe certain other features touching on the procurement field.

One, of course, is the statutory words that it is important to keep small business going. It is part of the fundamental philosophy of this country that we don't want to end up with 10 or 15 big corporations that are the only ones in business. I think, in that event, the lack of competition would probably hurt us all.

Also, it is not only in the statute, but you will find that all individual Senators and Congressmen have friends, or at least constituents, who are in small businesses, and you will be besieged by small businessmen.

Now, in many instances, you can do something for them. For example, when you negotiate, or when you put up your terms of sale, you can permit less than the whole quantity to be delivered by each of several bidders. Thus, a small concern that could not possibly supply the whole quantity you need can supply part of it, and another small concern another part. You will often get lower prices that way, and you will certainly keep your skirts clean with respect to possible attack later.

There is also a "buy American" provision, which says that when a supply is obtainable in the United States or its possessions you must buy an American product, unless the price differential between the foreign product and the American is unreasonable. So you have

two outs on the "buy American" provision. One is a case where the article is not made in the United States, such as certain Swiss watches, let us say. The other is a case where the price differential is unreasonable—and, as a matter of administrative practice, a price differential of 25 percent is considered unreasonable.

There are certain other statutory provisions that have been passed—and will be passed from time to time—that you will have to know about, but I don't think any of them are too important at this time.

So I would like to conclude by referring to four types of buying which are now done by the three services and then giving you my feeling as to how procurement is going now.

There are four types of buying being done. There is so-called collaborative buying, which means, let us say, that the Army and the Air Force have adjacent offices in the same building; and although they process their own purchases, they keep in constant contact so that each one knows what the other has found out. They keep in step with each other. That is a sort of voluntary affair, and it works well in certain instances; as, for instance, in textile purchases in New York City, in that case between the Army and the Navy.

Then there is joint procurement, in which all three services create one agency, such as the Armed Services Medical Procurement Agency, which does the buying for all three services. That is something that is very feasible in a specialized type of item, like medical supplies, where, on the whole, the needs of the three services are apt to be the same, and the most efficient way to do the buying is to have one outfit do it, thus eliminating competition between the three services.

Then there is single-service procurement, in which the Munitions Board, in its wisdom, decides that it would be in the common interest if one service did the buying of a particular commodity for all three armed services. The Navy, for example, purchases solid fuels for the Air Force and the Army; the Army purchases most foods for the other two services; the Air Force purchases photographic equipment for the Army and the Navy.

The last type, of course, is employed when it is not feasible to have any of the three I have just described, and nature takes its course, as it did before unification.

Now, there are some adjuncts, like the Production Act of 1950, with respect to controls. Most of those are not in effect now, and there are no price controls. You will have to keep yourselves alert to new statutory developments of that type if you are in the business,

and I imagine you will get more information on the Production Act as you go along. The principle of it has been to make it available to all of us in the buying business--not just the military, but, of course, the military generally has priority--so that scarcities can be taken care of by price controls, when necessary, and by allocation or rationing.

In conclusion, I would simply like to state my feeling, after being down here for some 16 months, that the standard of buying, of procurement, in the military services is extraordinarily high. We get, in our office, most of the "flaps," most of the cases where something has gone wrong, so that I see that side more than the good side. Nevertheless, I think that both for integrity and in most cases for efficiency the procurement that is being carried out in behalf of the three services is of an extremely high standard.

It is partly because you have a good statute and a good regulation to govern you.

It is partly because the three services produce officers and hire civilians of very high degrees of intelligence and integrity. You cannot do it just with integrity, because somebody will fool you, and you cannot just be smart--you must have both intelligence and integrity in procurement.

Finally, I think the reason why the procurement is going as well as it is, which is very well, is that at such places as the Industrial College, and particularly this college, there is a science of procurement, a technology, being built up, passed on, rationalized, disseminated, so that most of the officers who are engaged in procurement know something about the theory as well as the practice.

General Vanaman, that concludes my prepared talk. I will be glad to answer questions.

QUESTION: Sir, would you care to comment on the desirability or feasibility of establishing a central military procurement agency to do away with what little competition may remain between the services?

MR. ALEXANDER: Yes, sir. Based on what experience I have had here, I would be opposed to that. I think that the services procure more efficiently, probably, the way they do now than if we had one huge, sprawling organization.

That is a brief answer. I can go into details, but I won't. I will talk to you about it afterward if you would like.

QUESTION: Is that primarily because of administrative difficulties?

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MR. ALEXANDER: Partly that. I am assuming you are asking the question, if I were Congress all by myself, would I order it? Of course, Congress has not. Congress has specifically said we don't want merger; we want unification. But even if I were Congress all by myself, I don't think I would be for it, for the same reason that, within the Army, I am not in favor of having the Quartermaster, Ordnance, and the Signal Corps merged for procurement purposes. I think it is better administration to keep differing types of procurement agencies somewhat separate from one another, subject to the same general principles, but able to go about their type of business without too much interference.

QUESTION: Mr. Secretary, you mentioned the fact that you, in your position, receive a lot of "flaps," criticisms, and abuses. You did not mention the fact that you are not supposed to influence labor-management relations in any way. But suppose you let a contract with a company, it is an important contract, and then the plant is struck for a considerable period of time. What do you do?

MR. ALEXANDER: On that subject, in the last 15 months or so, that is the reason why I have been glad I am in the Army and not the Air Force. The Air Force had a couple of tough ones about a year ago.

In the first place, I want to make one correction, if I may. I did not say, or I did not mean to say, that I have a lot of "flaps," complaints, and troubles where I sit. What there are, are apt to come there, but I think, relatively, they have been much smaller in number than I would have expected.

I would put it this way: The primary interest of those of us whose business is procurement is to get the product out. We are not the guardians of the rights of labor; that is, the Department of Labor. At the same time, we are part of the Government of the United States, and we cannot break strikes or do things which the general public would consider antisocial. So each case is a separate one.

I would say the average thing to do if a plant from which you are procuring is struck is to try to see to it that the various labor mediation people and any other appropriate government agencies, including the Department of Labor, are in there trying to solve the dispute.

I don't know whether that is a satisfactory answer. I am against ordering the Army in to break the picket lines, or anything as drastic as that.

QUESTION: Are you familiar with the way Mr. Symington entered into the Bell strike?

MR. ALEXANDER: As a newspaper reader, yes.

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I don't know whether I have satisfied you. I would be glad to try. I admire Mr. Symington very much. I think you have to be careful in entering disputes. I think that the Air Force problem--and maybe the Navy's--is peculiar in that the Air Force has concentrated its production in a relatively few big companies--most of its eggs are in those few baskets--and it might well mean that, were I Mr. Symington, I would move in; but being Alexander and in the Army, I wouldn't.

QUESTION: Mr. Secretary, in mentioning the two small firms offering equal bids, you said you would flip a coin to decide which one to give the contract to. I wonder if there may not be certain circumstances that would make it better to decide in favor of one firm as against the other. One of the firms might be one that you want to foster because of future usefulness, or you might see labor troubles in the other firm. So can you decide in favor of one firm without flipping a coin, and still be out of hot water?

MR. ALEXANDER: When I referred to the two lowest bidders being equal, I meant taking all proper factors into account.

I am sorry you brought in the labor dispute possibility, because that ties in with the preceding question, which was difficult. If the plant is struck, for instance, you would certainly have the right to consider that the lowest bidder whose plant is struck is not capable of producing, and I think you could rule him out for that reason.

But the labor relations field is a terribly dangerous one for the military because it is not our business to know the rights as between capital and labor. Our business is simply to get the product.

In addition to the fact that a plant is struck--or, perhaps, it has been officially signified that it will be struck in 10 days--the past performance of a company, the fact that you see a flood coming down the valley towards its plant, and so on--all those things would give you the right to say, "He is a low bidder, but he is obviously not qualified."

QUESTION: In some cases it is necessary to put the procurement in a large company. I was wondering if there is any legal basis for our present practice of trying to spread this procurement through subcontracting. Can we in any way, other than by persuasion, dictate that a contractor must spread that through expanding his subcontracting base?

MR. ALEXANDER: Yes, indeed. That is something we are studying very hard in the Army now --to make sure we are causing small business to participate through subcontracts, and also to see to it that there

is not undue concentration in one area and that we have as many qualified suppliers as possible. If you are negotiating, you can go so far, in my judgment, as to put in certain requirements on this that the big company you are negotiating with must follow. Actually, almost all contracts with big business necessarily involve a good deal of subcontracting.

Is that a sufficient answer?

QUESTION: Is there any legal means by which, in an advertised procurement, you can say, "You will subcontract 30 percent," or something of that kind?

MR. ALEXANDER: No. If you advertised, I don't think you would have the right to say, "Only those need make bids who are willing to subcontract 30 percent of the work." I doubt if that would be legal, although I would like legal advice on it.

QUESTION: My question has to do with the type of contracts that you let. The fixed-price contract induces efficiency in operation, but it is hard to tell your procurement officers how to place those contracts; whereas the cost-plus-a-fixed-fee contract more or less encourages inefficiency within a producing company. Would you care to discuss the advantages and disadvantages of those two types of contract?

MR. ALEXANDER: Yes, sir; I would be glad to. For certain fairly standard items on which you know a good deal about cost factors, the fixed-price contract is probably the best if you are negotiating.

The cost-plus-a-percentage-of-cost contract, which used to be permitted but is absolutely out now, is a direct encouragement to inefficiency because the more inefficient a company is, the bigger its profit, as you can see from the mathematics of it.

The cost-plus-a-fixed-fee contract is very often necessary at the beginning of a dealing with an outfit or as to a new product on which there is not a great deal of back history, because, then, the fairest thing very frequently, to both the Government and the individual is to let him be paid costs and then a flat fee, not one which varies percentagewise.

A further development, which you ought to get toward when you can, in my judgment, is the incentive-type contract, whereby you may start with a figure for the end item and then say to the contractor, "The more you reduce the cost, the greater will be your profit—but we want to share the profit with you." As, for example, if you say

you will pay up to \$100 for an item, but you want his cost figures after he has made the items; and if it turns out that the cost is \$50, then you will pay him probably about \$60, and the Government will have made \$40 in the process. That is the type of contract one ought to get toward as much as possible, in my judgment, but it is not possible on a new supplier or a new item because you cannot fix that \$100 figure without some prior experience.

QUESTION: Mr. Secretary, in negotiated procurement, how much competition should be brought into play between potential suppliers?

MR. ALEXANDER: That is an excellent question because, among other things, it points up something that I had meant to say and did not say earlier.

In negotiated contracts, in addition to driving the hardest bargain you can, you want to be sure that you negotiate with the maximum practicable number of suppliers.

What you do is this: Let us say you have a list of 20 suppliers of a particular item. You decide that 10 of them are much the most efficient and satisfactory. You write to that group of 10 and invite proposals--not bids--and they come in with proposals to supply the thing you want. You may decide that 3 of the 10 are the most advantageous, and then you really go to work with each of the 3 to negotiate the best deal you can among them.

It is a selective process. But it is very important that you have considered as wide a field of suppliers as possible, both because you will get a better product and a better price and because it keeps your skirts clean for the future.

There is also the element that sometimes you will wish deliberately to steer a procurement away from or toward a particular plant because, for mobilization purposes, you want to be sure you have several companies with the know-how permitting them to go into quantity production quickly in case a real emergency came.

QUESTION: You started to touch on the question I am going to ask. In the last 16 months how much have educational orders been employed in current procurement?

MR. ALEXANDER: You say "educational orders." I would define that term to mean orders the purpose of which is not so much to buy some particular vehicles as it is to get some suppliers in shape so that they can produce in quantity for you.

QUESTIONER: Yes.

MR. ALEXANDER: Speaking only for the service with which I am relatively familiar, I can say there have very definitely been some very important educational orders in the Army.

QUESTION: Mr. Secretary, you touched on this question already, and perhaps I am going to phrase it in a way that may not be quite fair. In making a comparison of the procurement organizations in the Army, Air Force, and Navy, I think you indicated that in the Army the Quartermaster, Engineers, and Signal Corps each have procurement offices that buy supplies they want. The Navy follows more or less that practice; I am not too familiar with that. In the Air Force, we have one procurement office.

You indicated a preference for the Army system; that is, each one buying the thing he knows most about. That must be a much more expensive way of doing it because you have a separate procurement office, or a separate procuring individual, on each base, buying that material. If you are in favor of it, you must feel that the savings you effect in that system more than offset the cost of the additional organization. Would you care to comment on that?

MR. ALEXANDER: Yes, I would be glad to. I favor the way the Army is doing it now for the Army's job. I think I would not for the Air Force's job. I don't know too much about it, except that the Air Force is blessed, in some respects, with a less complex procurement problem than the Army and, I think, the Navy have, because one or the other of the other services is now procuring for you your food, vehicles, and a good many other things, and the great bulk of your own procurement goes into things that will fly. And that procurement would be, let us say, in one technical service if it were in the Army. Do you see what I mean?

We have made one modification in the Army, in that just before Korea, an order was issued that the Transportation Corps would no longer be a procuring agency for the Army and that its supplies would be procured by another technical service. Korea, in addition to its other disadvantages, suspended that action, and the Transportation Corps still procures for itself. But that would reduce us to six. And since medical procurement is done jointly, it is five procuring agencies that we have.

You can argue that you are going to have just the same number of bodies and pay the same amount of rent whether you have five separate organizations or one, or you could argue that one would cost less than the others. I don't think that is the important thing. I think it is the variety of types of activities that is important. If the activity is mostly directed toward one main object, you certainly ought to centralize it, which is just what the Air Force has done.

QUESTION: Some months ago a directive was put out—I guess the Munitions Board originated it—in effect restricting current procurement negotiation deals by a service to those plants for which that service had approved mobilization planning production allocations. I have lost contact with it since, but it was my feeling that it was going to cause a lot of confusion, certainly in the Navy, by eliminating as producers those people for whom we did not have approved mobilization planning production allocations. I wonder if that caused the Army difficulty, or whether you think the attempt to tie current procurement to industrial mobilization planning has been productive of more good than confusion.

MR. ALEXANDER: If the Munitions Board had done just that, I think it would have caused the Army a great deal of difficulty. I did not think it had done just that. If it is the same paper I am thinking of, it said that, in so far as possible, or when feasible, in connection with the stepped-up procurement that was going to result from the new appropriations after Korea, you will bear in mind the M-day plant allocations in negotiating for or purchasing supplies. I don't think it restricted your ability to negotiate just to the companies for which you had firm allocations.

QUESTIONER: This particular letter I am referring to had six paragraphs, I believe, and covered different deals. One specifically said that a service shall not procure items from plants not allocated to it. There were several other provisions along that line.

Actually, I never saw a signed copy of it. We were told we could comment on it. Then we were told comments weren't wanted, that it was going to be implemented anyway. Then we had a formal notice that it had been implemented, although, as I say, I never saw the signed copy.

MR. ALEXANDER: It is sometimes alleged that papers are issued out of the Munitions Board that the Munitions Board members don't know about. This may prove that; I don't know.

There are two points involved in the subject that you raise which I would like to mention, if I may. One is that the increased procurement resulting from the increased appropriations subsequent to Korea has meant that all the services have a greater opportunity to get ~~to get~~ up and try to do business with the companies with which we know we would do business if full war broke out. So all three services have stressed the desirability, other things being equal, of getting ourselves nearer to mobilization readiness by having had a contract with and production out of one of the plants that have been allocated to us for M-day production.

The other point is that, in order to prevent poaching and end runs, all three procurement Secretaries who are Munitions Board members got

passed a paper which said, in effect, that the Army will not negotiate a contract with a plant assigned to the Navy for M-day without first having gotten the Navy's permission.

QUESTION: Mr. Secretary, this is not exactly a procurement question, but it is closely related. It is between procurement and supply. Throughout your remarks and in our studies we have noticed that there is a gradual concentration of assignment for centralized purchase. Hasn't there been a considerable amount of movement for the expansion of local procurement and procurement on account for such items as household items, office supplies and equipment, construction supplies, and that sort of thing?

MR. ALEXANDER: Procurement on account?

CAPTAIN MILLER: Is this what you mean? There is more or less decentralized procurement for household items and construction equipment, rather than centralized procurement?

QUESTIONER: That is right. I have this in mind: In the past the Quartermaster has bought office supplies, and never could one buy, at a local station, paper, stencils, and that sort of thing, without having first gone to the depot. A study that I saw showed there was actually a falsification of prices; that when we stopped to figure the storage costs, transportation costs, and so on, probably supplies could have been purchased better locally. As a result, I understand from the last contact that I had, we are expanding our authority for local purchase now even to other things to a considerable extent to eliminate those costs.

Then there was also the proposal that we buy on account. Many times we go out and buy what we want for six months, when we have local authority to purchase, and we put the items in our stocks. But this procedure was to permit buying these articles, as we needed them, on the same procurement voucher.

MR. ALEXANDER: I don't know if I really am qualified to answer that. I will try.

I think it is the rule still that an item like a typewriter, which you can get from the Federal Supply Schedule, must be bought that way. I would not be surprised if that is the case as to official stationery, including forms.

There is a great deal of local purchasing that is allowed, but it is generally in nonstandardized or perishable types of things or services. I think the tendency still is--not overseas, not in combat

areas, and not in special circumstances, but in general—that it is considered safer and better, and in the long run cheaper, that standardized types of things be gotten through the same old channel.

CAPTAIN MILLER: Mr. Alexander, I think we could keep you here all day asking you questions, but the time has run out on us.

As you know, this has been our first lecture in Procurement, and you certainly have given us an excellent base on which to build our course.

On behalf of the Commandant, the faculty, and the students, I thank you very, very much for a most excellent lecture.

MR. ALEXANDER: Thank you.

(8 Jan 1951--650)S.