

CONTRACT VS SERVICE LOGISTIC SUPPORT

20 January 1954

1207

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Publication No. L54-81

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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COLONEL HOLMES: Gentlemen, this morning is the anchor Requirements Branch lecture. Since peacetime contracts with industry for commercial-type services might have many implications come another war, this lecture should be quite thought-provoking.

Many of you can recall that during World War II we were forced to establish our own industrial-type facilities, such as box factories, repair shops, and so on. This was because industry was either already involved in other vital wartime efforts or unable to meet the conditions of the contract. After the war, certain industries desired this type of business, even to the extent of exerting political pressure to have the military give up this type of operation.

Since the Air Force has had considerable experience in contract support, we have as our speaker today an Air Force officer. He is conversant with this subject both from the staff planning standpoint and also the operations standpoint. Since our speaker is a graduate of this college, it gives me double pleasure to welcome back to this platform Colonel John C. McCawley, United States Air Force.

COLONEL McCAWLEY: General Greeley and gentlemen: This morning I want to talk a little about how much we should contract for logistic support as opposed to how much we should operate our own service. What I will do is pose a lot of questions and a lot of thoughts. But I won't answer very many. I will first give you some general thoughts. Then I will give you some criteria by which we should judge our actions. I will end up with some specific examples of where the Air Force is going into this type of operation.

In thinking about anything we have to get used to certain cliches and terms. Such terms seem to change every couple of years. The current term I'm thinking of is "commercial and industrial type facilities." You will see that in plenty of regulations coming out from the Department of Defense (DOD) these days.

That trend started about a year and a half ago, last winter, when the DOD issued directive 4000.8. That is the basic regulation on supply. This regulation was so indefinite as to what industrial and commercial type facilities are that very few people paid too much attention to that part of the regulation. It remained kind of dormant until DOD started to revitalize the thing about two months ago. DOD brought out another regulation called 4100.15; that put a little more bite in this business of commercial and industrial type facilities.

Just a couple of weeks ago during Mr. Thomas' lecture, a student here from the Quartermaster was very much concerned about this regulation. He asked Mr. Thomas whether there was any intention of getting rid of all Quartermaster operations, since most are similar to commercial endeavors. Mr. Thomas said, "We are not going to do away with the Quartermaster or any other service." Our approach then will not be radical at all. At the same time we are not going to stand in the way of progress either. What we are going to do is something in between the two. In this talk we will try to arrive at where that in-between might be.

The DOD regulation 4100.15 provided something more definite than 4000.8 in that it gave eight criteria by which we will judge our action to see whether we contract or whether we operate. I will cover these criteria in some detail a little later. But first let us go into some general thinking to prepare ourselves for the specific, which is to come a little later.

In the first place, whenever you are thinking about any logistic service, the first thing you always think of is: Is it effective militarily? This new regulation recognizes that very basic thought. Let me quote one sentence from it. That regulation recognizes "the basic military necessity for integrated self-sustaining units responsive to command and the necessity for operating anywhere in the world." I think we will all approve of that.

The second and equally basic consideration is the fact that in this country we depend for our military effort, and for every other effort, on our free and competitive economy. It is that economy which is going to give us the sinews to fight with. We must do everything we can to keep it growing and strong. Of course we all recognize that. In considering this business of military necessity we must weigh fully the needs of the economy.

Where any logistic service falls into the first category of military necessity, there is not much question but that we operate it as a military endeavor. If it is definitely civilian, obviously it goes into the economy. We are not talking about either of these extremes, because they are fairly well recognized.

We are talking about something in-between--about logistic services that fall in a twilight zone. In this twilight zone is where all your problems come--certainly ours in the Air Force do. And that is where your judgment has to be fully utilized to determine what your action should be in each particular case. Cases in the twilight zone do not have an obvious solution as do those that fall in either extremes.

Now, we in uniform don't need too much encouragement to think about and advocate the military necessity angle of logistic services. So I

won't belabor that very much. I will spend more time on the civilian economic aspect and suggest some thoughts for you.

First, the Administration that we are under now will be in office at least for the next three years. It is dedicated to the thought of getting the Government out of business, particularly where that smacks of socialism. Socialism, as you know, is where the Government has control over or operates the means of production or services.

Now, a lot of people like a little socialism. If you ever talk with, say, labor leaders over in England, you will find that those people are convinced that unless you have socialism, you can't get all the people employed who would like to be employed in the country. But, of course, we don't go for that sort of thing. We don't think that is necessary to attain full employment.

The next thought I would like to get over here is that our economy is not static. It grows and it changes all the time. In the early part of the last century our economy was largely agricultural. The military was forced to go into manufacturing in the early part of the last century in order to get end items. Now that is no longer true. We should move with the times.

As a matter of fact, the military has gotten out of most of the manufacturing businesses which it got into in the early 1800's; but it hasn't gotten out of all. There is still room for improvement.

The next thought I would like to throw out here is the business of manpower ceilings. You know manpower ceilings are coming down. When they come down, something gets squeezed out. When something gets squeezed out, it is the logistic services that are right in the forefront of that squeeze. And that is where it should be. After all, our business is combat. We have to do everything we can to keep the combat portion of our services strong, fully manned, fully trained, and fully supplied.

I want to say one word of caution about this manpower business. It is all right to think about it, but it is not always too wise to talk too openly about it. Some congressional committees don't like to think that we go into contracting for the purpose of getting around ceilings. I just throw that caution out. You might keep it in mind, but don't talk too much about it.

Now, with those general thoughts, let us get back to the criteria by which we judge our actions in individual cases--they are:

1. Insufficient private facilities.
2. Substantial savings accruing to the Government.

3. Probability of delay in meeting military needs.
4. Need to train military personnel.
5. Necessity to control classified information.
6. Protection of installations or personnel.
7. Demilitarization prior to disposal.
8. Any other real good reason, viewed from the public standpoint.

That is a condensation of the much longer-winded criteria that you read in 4100.15. We will take each one of these in turn and get a few thoughts about each one.

The first one is "Insufficient private facilities." If there are no facilities close by and you need something close by, you can operate your own logistic services. In Greenland and Iceland, where there isn't anything, you can operate all the services you need. Around New York City you would have to do something less extensive.

I think that criterion applies to services that have to be performed locally. It certainly wouldn't apply to things that could be performed centrally. It certainly would not pertain to heavy industry, as an example.

There is one thought, however, before we leave that; and that is that before you can say there is no private facility around that can handle your problem, you have to encourage somebody to establish a proper commercial facility. After we have tried that and still can't get any commercial venture established, then we can operate our own service, according to this criterion.

The second criterion is "Substantial savings accruing to the Government." Those words "substantial savings" should be underlined. If you are justifying your budget, you can forget those words "substantial savings." Before any budget committee that I know, if you show that it is merely cheaper not necessarily substantially cheaper, to operate your own facility, the budget committee will be in favor of operating it.

There are a lot of problems, however, in determining whether or not it is cheaper to operate your own. Let us examine some of these that might occur to you.

The DOD is currently putting out, as you recall, a directive describing certain methods of cost accounting; so that all services will

cost-account very much alike in determining whether or not a facility may be cheaper to operate yourself rather than to have private industry operate it. The DOD is also asking all the services to make a survey of all their commercial- and industrial-type facilities. As the first increment they are going to prescribe 13 types of facilities for survey.

By the way, I might mention that these 13 are sort of fringe services. Obviously, that is the place to start. I believe that they will get into a lot more controversial facilities pretty soon.

There are the facilities with which they will start the surveys. First, aluminum sweaters--that is not something to wear. That is a furnace in which the Air Force takes old airframes and melts them into pig aluminum. The aluminum comes out of the furnaces in little blocks, which are easier to handle. Of course the local dealers in scrap don't like us to do that, because they would prefer to do it. Other items are bakeries, scrap metal baling, clothing factories and sponging plants, clothing reclamation shops, furniture repair shops, ice cream manufacturing plants, coffee roasting plants, laundries, paint factories, sawmills, and rope walks.

We have one sawmill in the Air Force; we are going to close it. The Navy has three sawmills; they are going to close them, too. The rope walk--that is an old-time name for a rope factory. We have only one existing at the Boston Navy Yard. We probably are not going to get rid of that. The Massachusetts senators prefer that it remain. That is a consideration which colors a lot of thinking.

Now, getting back to this cost accounting, I would like to suggest that you might find that it is a very inexact science. It is not like arithmetic. It is extremely inexact. I will explain what I mean by that. The comptrollers here won't like it, but it is a fact.

As one example, in industry there are varying ways that depreciation is taken each year. Some industries depreciate their facilities over their full estimated life. Others, like U. S. Steel, depreciate them in about half that time, because they say they want to depreciate at the rate which will recover the cost of replacement facilities.

The amount that is charged to overhead also varies in industry. So does the amount of that overhead which they charge off to any particular type of product. There is more than one practice on that. Frequently the amount of overburden that is charged to a particular product is arbitrarily set.

The way industry prices inventories differs from company to company. Some of them price on the "last in, first out" basis. Others price on the "first in, first out" basis. Others have different methods.

All of these items that influence cost in industry are very, very nonstandard; that is what I mean by saying "inexact."

Also in comparing industrial costs with Government costs, perhaps the tax that they pay should be deducted from their cost; but it isn't.

Again, in comparing Government costs with industrial costs, you might ask: "Have we included all our depreciation? Have we included any insurance risk?" The answer to that question might be "No." "Have we included the cost of pension plans for the military and civilian personnel that work for these plants?" The answer may be "No." "Have we included a proportional part of all-supporting overburden, such as barracks, motor pools, higher headquarters, and the like?"

I bring these things out to show you that when you say that the cost of a Government operated service is cheaper, or that a Government-produced item costs \$3.65 or something like that, question it. Maybe that is not such a good figure. Maybe the assumptions that are behind the computation of that figure aren't nearly as definite as the figure.

Another consideration I would like to get around to in this costing business is the fact that our national policy is to ignore cost reasons in a lot of cases where social considerations are involved. I would like to give you some examples of that. We have the "Buy American Act." Under that we pay as much as 25 percent more for an item that is produced in America than for an item that is produced somewhere else. We have parity prices for our farmers and mail grants for airlines and ship-lines. We have tariffs which are subsidies for industries. We pay more for placing contracts in distressed areas. We give tax inducements to certain industries to get them to establish facilities where we want them. Those are national policies; I just throw them out to you as a thought.

Another thought is, What do you do when you have a lot of capital invested in a Government industrial facility? You can't let it stand idle. That would cost plenty of money. What do you do with it? You can operate it yourself, or you can sell it to some private individual or company. But if you do that, are you going to give someone a monopoly? Are you going to give it to him at such a reduced cost that he can underbid everybody else? That would be a monopoly. You have to give that consideration. After all, our economy is based on the element of competition. We could put the facility out on contract to some private industry and let that industry operate it. All these are ways of disposing of facilities in which a lot of the Government's money is invested.

There are a number of things to look at before you make up your mind, before you pass in judgment on the basis of cost comparisons.

Now, the next criterion would be "Probability of delay in meeting military needs." That is fairly evident. Your military needs for certain services may fluctuate so rapidly that no one, or very few, will want to invest private money in that type of facility. Obviously, we must generally operate that as a Government facility. But not always. For instance, during the Korean War Congress appropriated 2.2 billion dollars--a lot of money--to build facilities for industry so they could supply our needs. That sum was just for the Air Force. The other services got additional funds for that. We also allowed rapid amortization. But, generally, if we can't get industry to invest its money in a facility that we need, we have a good reason for operating it ourselves.

The next criterion is "Need to train military personnel." I think that is self-evident. If you are going to operate a lot of military services overseas, you have to replace the military personnel over there. You must have some point where you can train personnel so they can serve as replacements. You have to operate a minimum number of facilities for training purposes. That is a good, logical reason.

The next three, 5, 6, and 7, are rather self-explanatory. I don't need to belabor them.

I might caution you a little about that "Necessity to control classified information." You might think from the fact that General Electric and other companies of that kind are making all sorts of secret electronic devices that this is in violation of this criterion. But you don't have to invoke that criterion with regard to a company of such repute. On the other hand, if you are dealing with somebody at the other end of the scale, some fly-by-night outfit, you should take full advantage of that particular criterion and think about the protection of classified information.

The last criterion is wide-open. The only limit is your imagination. But if you have arguments that favor operating the logistic activity yourself, the arguments had better be good.

So much for the generalizations as to why they laid down these criteria by which you judge your actions. Now let us take a look at some of the activities where the Air Force does some contracting. I mention the Air Force because I am familiar with that. I am not so familiar with what you do in the Army and Navy. I imagine I could get equally good examples from the Army or the Navy. These are just ones that I know about.

First, let us mention manufacturing. Manufacturing is not exactly within this area of general logistic support services; but I mention it because we still do a lot of manufacturing. In the Air Force we do practically no manufacturing. We do make a few things. We have box

factories to make boxes in depots in order to ship out items from that depot. We also make an occasional part in our maintenance shops if we are out of that part. But our policy is to do no manufacturing.

There are certain disadvantages to this. I throw them out here for you to think about. One is that you are subject to certain dangers of delay, like strikes. We had an example a couple of months ago, when North American was struck. Production was halted on the F-86 airplane. That was a serious delay. But generally we have to accept that, because it is part of our American way of life.

I would like to ask you this question: If you accept delays of that type in your major armaments, your most important items, should you be more stringent in your limits on the less important services? Of course we don't necessarily accept delays, such as these strikes. We can take action to guard against them. We can do various things. One thing we can do is have multiple sources for the items that are very important.

The next thing I would like to mention that the Air Force does through contracting is maintenance and modification. This is getting to be a relatively big thing as production of new aircraft tapers off. This year we contracted to the extent of half a billion dollars in that field alone. Industry is taking from us a load that amounts to about 70,000 man-years, full time. That is a pretty big figure. If you remember what Mr. Thomas said here a couple of weeks ago, he mentioned that in 1935 the budget for the entire military establishment was just barely over half a billion. That is something to compare this with.

The amount that we are putting on contract in this field of maintenance and modification has been steadily rising year by year, because contract work has been rising. As an example, two years ago we had 21 percent on contract. Last year we had 33 percent. This year it is 41 percent. Next year more than 50 percent will be put out on contract.

We think next year we will have 30,000 engines under contract for repair. Remember that the engine in an airplane is a big piece of machinery. It averages anywhere between 30,000 and 60,000 dollars apiece and in some cases runs as high as 200,000 dollars apiece.

We contract some maintenance for electronic fire-control systems for jet fighters. We have contracts for maintenance with such people as Western Electric, Sperry, and A.C. Spark Plug.

There are certain disadvantages in doing this in such a big way. The major disadvantage is that we can't do it in wartime. You might wonder why we do it at all.

In wartime we will need many of the industrial facilities that are doing this now, to make brand-new airplanes. But right now a lot of facilities that are not engaged in making new aircraft welcome this type of work. It gives them some means of handling their overhead. It also gives us the assurance that they are still in business, that they are keeping their trained people together, so that in the event of an emergency they can start making airplanes immediately.

It has another advantage as far as we are concerned. Where a manufacturer maintains his own equipment, he discovers where it is weak; then he has a tendency to change his design so as to strengthen the weak spots.

Now let us mention depot maintenance capacity. We operate our depots for maintenance on a one-shift, five-days-a-week basis. In the event of war, they could double the number of shifts or even put in three shifts, and operate six or seven days a week. We have this vast potential in the event of an emergency of taking that work back from the manufacturers quickly. It also gives us the advantage of being able to meet any other type of emergency quickly; an emergency like the Berlin airlift or something like that, where we had to get in and extend operations very quickly.

Another item I might mention is that in regard to manpower. We can get manpower to fill our depots easier in an emergency than we can now. Patriotism in war is a strong inducement.

We find that in contracting to the extent that we do, we get certain advantages. On that basis everybody is happy. Industry is working. Both industry and our depots have a mobilization potential.

Other items for which we have repair contracts include radar, crash boats, furniture, laundry and mess equipment, powered ground equipment, and the preparation of aircraft for overseas shipment.

There is another movement which we have been exploring—which may seem a little radical—but really isn't—and that is the contractor-operated logistic support for an end item produced by that manufacturer. As you know, most manufacturers provide maintenance service and stock parts for their commercial end items. They provide a pipeline full of spare parts and the trained men to service their equipment. We are wondering whether we couldn't use that genius of the American manufacturer in our military support.

We find that such support does have some application, particularly in the ZI. For example, our ground radar sites seem appropriate. These sites have big pieces of equipment. It takes about 55 carloads just to move in one radar and its equipment. We have arranged for the

manufacturer to maintain that equipment at the site. The manufacturer supplies overhaul facilities at the site and maintains the equipment for us. If necessary, he puts in a team of experts. He may exchange black boxes at the site, returning the malfunctioning component to his factory. It works well. We have had contracts like that for several years with Bendix and General Electric.

Another example is our contract for the support of the Matador, our medium-range pilotless aircraft. The contractor is Martin. Martin provides the peculiar parts directly to the Matador squadron. He takes back the components that need maintenance, and overhauls them at his factory. Our depots don't get into that process at all. Martin has a one-year service contract, as a trial. It might prove to be something that is unworkable and it might not. We will evaluate it at the end of the year, to see whether or not we should extend that system to other weapons.

Some of these things might sound a little on the radical side. We don't think they are. They are certainly not when they are viewed historically. As an example, Napoleon employed contractors to haul his field guns over the battlefields of Europe. Until he changed the system in 1801, contractors owned the horses and hired the drivers. So a lot of the new things that we do now aren't new at all.

Let us mention warehousing. In this field the Air Force owns only about two-thirds of the depot warehousing that is used. We are planning in the next fiscal year to have about 65 million square feet. Of that, the sum of more than 22 million is either borrowed from the Army and Navy or rented from contractors.

That is a fairly substantial figure. Of the amount that we rent from contractors, which is almost 10 million feet, about half is rented on the basis that we provide the service and just pay rent for the space. The other half is contracted for on the basis that the contractor also provides the service, does all the warehousing work.

We can't go much farther in this direction, because there are only about 30 million square feet of commercial warehousing available for contracting. We already have about a third of that in the Air Force. The Army and Navy have something less. Nevertheless, the DOD did put out a directive which requires each service to survey its warehouses to determine if we can use more commercial warehousing. Doing that is literally a big job. We have warehouses everywhere. We have them all over the world.

The purpose of that survey is, of course, to see whether or not we should operate our own warehouses. We might be able to use one nearby from another service. We might be able to close some of ours and make them available for civilian activities.

One area where the Air Force gets into this business of contracting to a large degree is in the field of local purchase. In that way we utilize the civilian distribution system. They keep all the pipelines filled. They supply all the manpower, all the warehouses and buildings, and all that sort of thing. We buy a lot of supplies in that way. It saves us a lot of trouble, money, and men.

In wartime we anticipate many of these items will disappear from the civilian outlets. We will be able to handle the increased load in our depots. This system there has wider application to peacetime than to wartime. But right now we buy something like 75,000 items from local outlets. We are spending roughly 200 million dollars a year on that basis.

About a quarter of that business is with GSA. At the present time we are running a survey to see whether or not we can furnish the service cheaper than GSA can.

I might mention some of the services that we operate ourselves. In the Air Force we operate 29 bakeries at overseas locations. Obviously we must operate them in such places as Thule and Dhahran. We operate only five in the ZI.

As to laundries out of more than 200 Air Force bases in the ZI, we operate only 18 laundries. All the rest of our laundry service is provided by local contracts or by the Army or Navy nearby facilities.

In case of the MATS, we feel that military necessity requires that we operate it as a military organization, so that we will have the proper nucleus that can function immediately in time of emergency, like the Berlin airlift and the Korean lift. Nevertheless, within the MATS framework we do as much as is feasible on a contract basis. During the peak of the Korean airlift, about 70 percent of the lift was provided for on contract. The contractors provided their own aircraft and crews.

Sometimes we investigate a field to see whether or not we should get into it on a contract basis, and we determine that we should not. I want to give you two or three examples of that kind, where we have already decided that we don't want to contract. We studied the advisability of contracting some of our mess hall and refueling operations on some nonmobile training bases. In both cases it appears that the cost of contracting would be excessive.

Sometimes these investigations help us to improve our own techniques. In the case of refueling, it was working much more economically under the contractor than under our original methods. We experimented and improved our own technique to the point where we were able to do the refueling at less cost in equipment and manpower than the contractor.

We improved ourselves as a result of the contract. We are not now contracting in that field.

There is something which is a little aside from the specific field, of logistic services, but it is somewhat related. I want to mention research and development (R&D). In the Air Force we have on contract about 85 percent of our R&D money. That is roughly 400 million dollars. About 15 percent we retain generally for the purpose of administering the work done under the contracts and testing the results of the contractor's work. Comparing that with the Army and Navy, the Navy contracts about 65 percent of its work and the Army 56 percent. Of course they have different situations.

Let us summarize some of the things we have been talking about. In the first place we are talking about contracting of not only facilities but also activities and services which are commonly devoted to both the military and the industrial economy.

Second, the official defense policy is that the military will operate only those facilities which meet certain criteria which they have set up. We may also operate them when we need them from a military effectiveness standpoint.

I would like to mention again that we stress private enterprise in acquiring our major armaments. Sometimes we don't stress it so much for our services of lesser importance.

The Air Force has been able to contract logistic services more than other military departments principally because we are not burdened with so many old-time industrial facilities. As a result we are able to save a hundred thousand men, through contracting. That is a hundred thousand men that we don't need in our logistic services and are able to put into combat units.

We are pushing a billion dollars in logistic type contracts this fiscal year. That doesn't include R&D, and it doesn't include contracts for purchase of equipment.

Another thought I would like to mention is this one, which you might stew over a little bit: Our success in war depends upon the success we have in marshaling our total economy behind us; you know that. That is not a new thought. The question I raise is, Are we getting enough practice in doing that in peacetime?

Another point I would like to raise is that in writing any term paper, thesis, or anything of that kind on this subject, keep in mind that there are no hard and fast rules to determine definitely that you will put this facility under contract and you won't put that facility

under contract. Nor should there be any hard and fast rules. There can't be, as a matter of fact. You know the combat mission of your service. You know the policy on contracting for logistic services. You know the thoughts behind the policy. Whatever is the proper course in a particular case depends solely on your best judgment.

CAPTAIN BROWN: Colonel McCawley is ready for your questions.

QUESTION: Colonel, I understood you to say that the percentage of these services is increasing. Is that correct? In other words as the years go on, you predicted reaching 50 percent. It seems to me that we are going to approach a point where the Air Force will be contracting for aviators to fly their fighter planes if that trend continues. Would you care to comment on that?

COLONEL McCAWLEY: We don't intend doing that. The instance that I mentioned where it is on the increase is in the field of maintenance and modification. I said that we had increased in four years from 21 percent to over half. I don't think we will go much beyond half.

QUESTION: There are a lot of places where the Air Force is doing local maintenance contracting. One place is the Heavy Transport School down at Morrison Field. Then I think you said that MATS is doing a lot of it. It is much easier for the manufacturer to maintain those Matadors, but AMC is paying the bill. That raises the problem of budgeting, because the local establishment that is having this maintenance done has to have a certain amount of flexibility. But who is going to handle the money for them? Is the Air Force still doing that? Or have they given it up? Or are you going to set up funds at the local establishments so that they can accomplish this thing?

COLONEL McCAWLEY: It is something that changes every year. Normally when there is a change from central to base operation, the money is given by AMC to the base the first year. As AMC transfers functions to the local base, it transfers funds. The base starts to justify its own funds for these purposes at the next full budget cycle.

QUESTION: Are we still doing that?

COLONEL McCAWLEY: Oh, yes. We are doing all sorts of things on a local basis.

QUESTION: Colonel, we have read many times that the Air Force is having a terrific job in training mechanics and keeping the caliber of enlisted men in the service that will make good mechanics, make it attractive for them to stay in. I just wondered whether the Air Force has farmed out any GI's to industry and had them work along with such industries as the plane manufacturers and your airplane maintenance

contractors, working right along in their shops and getting that training while they are working on the maintenance.

COLONEL McCAWLEY: Oh, yes. Particularly where new airplanes are coming off the line. We have to send people to the factories to get familiar with new products.

Now, don't forget that this contracting that I have mentioned does not pertain to the training that the unit does in maintaining its own airplanes. They are always training their own people. It pertains to the depot production line method of tearing engines down and building them up, like they do in any big industry.

QUESTION: It seems to me, in looking over these criteria, that the things included in them could all be done very nicely by commercial operators, even so far as training the military personnel. But it appears to me that, other than the military maintaining some control over their operations, they could be put under contract. I realize that this is a broad question.

COLONEL McCAWLEY: There is no objection at all to putting them under contract unless you have good reason for not doing it, unless you have a good reason for keeping them under your own wing.

Normally in training we don't do too much contracting. We have some training schools under contract, but as a rule we train our own mechanics. We train our own warehouse men. We train our own in such types of things where we have our own methods, because we know more about it. But these criteria are not too bad.

QUESTION: In this contracting business isn't it possible that you may be weakening your logistic base? If you have all these companies over here doing it, that is fine as far as maintenance is concerned as long as we are fighting here. But we hope that it won't happen. We would much rather fight in some other country. So you are going to have a tremendous problem of transporting all this materiel back for maintenance and repair to the ZI, where you can maintain it. Or you must pick it out from the ZI and put it over in Europe or wherever you are fighting, to maintain your Army. That is one of the flaws in the French Army—that it has no logistic support, because the French are depending on the civilian economy. Have you considered this factor in limiting that trend?

COLONEL McCAWLEY: If I gave the impression that this is weakening our logistic base, I gave the wrong impression, because it is not. We are not going to overdo this thing.

We have in the Air Force, and also in the Army and Navy, a worldwide logistic system. We have depots overseas, on both sides, east

and west. Those overseas depots do have maintenance capability. However, over and beyond that capability they are sending back to the ZI certain items that require extensive overhaul. That is what we are talking about on this contract maintenance--the overhaul work. In war we will continue to do such work in the ZI, but in our depots. Don't forget that overseas we do have a very good depot system, and will keep it so.

QUESTION: Colonel, you indicated that this may be just a three-year plan; that we may go back to another system after that if we get another Administration. What are your counterplans?

COLONEL McCRAWLEY: We don't have any counterplans. We know the Republicans will be in for three years, and they might be in for much longer.

QUESTION: I don't quite follow the reasoning behind your maintaining a box shop at your depots. You have to provide space for the box shop and carpenters. If you contracted for that with some local firm down there, somewhat like General Motors does with its subcontractors, you would have to give it the main bulk of your business. So the firm might just as well be a part of your depot. You are going to have to keep it in the depot. I see no point in calling it a box shop.

COLONEL McCRAWLEY: I agree with you as far as the box factory is concerned. As I said, in each individual case we have to look at it and see what the best action would be in that particular case. In the case of these so-called box factories, which are not factories at all, we intend to keep them, unless we are forced out of it.

QUESTION: You have been discussing the zone of interior so far. However, I was wondering whether you could tell us something about how far this principle, which apparently is good in the United States, has been made applicable to overseas areas.

COLONEL McCRAWLEY: When the draft of the proposed DOD regulation on surveying industrial type facilities came to us for comment, we recommended that it apply only to the ZI. So far we haven't been able to get that limitation put in. We believe that the purpose of the survey is to help our own economy, not necessarily some foreign economy.

However, there is a lot of contracting that we do in Japan, as an example. Those people can make a lot of things that we need. For instance, wing tip tanks and a lot of bulky things of that type which are expensive to ship such a distance. The same is true in Europe. The amount of contracting that we do overseas is very small in comparison with what we do in the ZI. However, the criteria are not limited to the ZI.

QUESTION: These criteria are all very obvious except one. Number 6 is not obvious. Can you explain that? It has to do with the protection of installations or personnel.

COLONEL McCAWLEY: Where we have a security problem, we have to weigh that. That security problem must influence you. You may have a certain physical area in which you want no outsiders. There are certain areas where protection of this type is essential; you wouldn't want to allow a contractor's people in that particular spot.

QUESTION: In your contracting for laundry service, do you try to set a flat rate for airmen or do you put it on the basis of the contract that is entered into with that particular firm?

COLONEL McCAWLEY: I don't know. Maybe there is some quartermaster in the room who knows about it.

STUDENT: It was a quartermaster who asked the question.

CAPTAIN BROWN: Do you want to take a crack at that?

STUDENT: I can speak for the supply service, which is on the same basis as in the Army. The supply service for its own personnel has a flat bundle rate based on so much per month per man.

COLONEL McCAWLEY: In other words the contractor hires his own personnel?

STUDENT: It is a commercial type operation. It is on an individual bid basis.

QUESTION: Isn't there an underlying principle of what the service wants to do for itself? You were just talking about laundry. You could think of something else—of the commissary, for instance. That is in this area of fringe benefits to the military. But on these criteria it seems to me that the operation of a Government commissary would be one of the things that the Government should not do. So we say, based on the principles that you have been talking about, that you want to continue that because it is a fringe benefit that we want to keep because we want it.

COLONEL McCAWLEY: We are not going to put the commissary on contract. Maybe somebody else here knows more about that than I do. How about that? Do you know the answer?

STUDENT: I don't just exactly get the basis of his question. Is his question whether or not commissaries are set up on the commercial type basis or operated through the military?

STUDENT: No. It just seemed to me that the criteria as to what we should do implied that the fundamental, the real, criterion goes above and beyond all of those things and is: Does the Air Force want industry to perform this service or does it not? Or does the Army want industry to perform this service or not? If we want to keep the commissary, no matter what it says in these criteria, we just want to keep it. That is really a comment and not a question.

COLONEL McCawley: We have to justify each one of these cases and see whether it is best to operate it ourselves because there is no good civilian source.

QUESTION: I have two questions. The first one has to do with the long-range statistical aspects of this. For example, on strikes, you say we are going to have strikes on our major equipment. But I can see a lot more problems than strikes in the big plants. There may be a lot of little strikes in little plants. In a big organization, if they have a strike, you can go to the locality and talk to these boys. I don't think you will have so much trouble with these big ones, where you can focus on them.

Secondly, I wonder if you are not going to lose a certain amount of logistic support if war comes, because you can't move these men to where you need them. You can't move those contractors' personnel. Whereas your own boys you can move any place in the world where they may be needed.

In expanding some of these small facilities, there may be difficulty in getting personnel. The big companies can get all kinds of public pressure behind them to get personnel. So a small company may have a great deal of difficulty in doubling its personnel.

I was wondering if all these points have been considered.

COLONEL McCawley: Oh, yes. We have been considering them very much.

I would like to point out that we do operate some of these laundries on a basis which is just enough to keep our overseas people trained. If we had to expand, we can probably expand just as easily as we can a lot of services that are equally vital or probably more vital.

QUESTION: But where you have a small base, you don't control that base laundry, do you?

COLONEL McCawley: No.

QUESTION: Your own personnel you do control. They are yours. You own them. You can put them where you need their services.

COLONEL McCRAWLEY: If you were in a small base and you wanted to set up a base laundry, I'll bet you would do it even if you didn't have anything. But I don't think that is very vital.

QUESTION: That is not a very good example. Maintenance is a better one.

COLONEL McCRAWLEY: In maintenance we do not go overboard. In this area the contracting I was talking about is approximately half of our maintenance business, which amounts to about 70,000 man-years that we are contracting for.

But we still are not operating at full capacity. We are on a one-shift basis five days a week. If necessary, we can go out and hire more people, spread our foremanship over two shifts, and go into mass overhaul production on lots of things with less trained people, and take over all that stuff.

We can handle that if we expand our maintenance operation. We are all prepared. On the expansion of the less vital things, like boxes and laundry, I don't think that is too much of a problem. On our maintenance we are all set to do it. And in other areas, like warehousing, we can handle it too.

QUESTION: In one of our navy yards, we had all the spare parts before the war furnished by the contractor. Our experience was that we should handle that ourselves, because contractors just couldn't handle it when war comes--it gets to be too much for them. Have you considered that?

COLONEL McCRAWLEY: That has been considered. I suspect that we will end up with having the Matador in our own system. It is all right as long as it is as relatively small as it is. We don't want to go overboard in changing our system, but we will be willing to take it if we have to.

QUESTION: I can't help but think of the parallel with the fable of the man who created a monster who turned on him and destroyed him. If you keep on going in this way, the first thing you know, you are liable to be burned up in your own conflagration. That is why I haven't been able to work up too much enthusiasm for going into this on the part of the military services. If you go into these things on your own initiative, on your own discretion, just because you think there is some indication why you should when you compare it with something else, you are going to reach the point where you can't stop--where there is no turning back.

I think a lot of this is fine to a limited extent. The Army and the Navy, however, operate in the ZI. Many years ago we used to have the old bum boats. We didn't have our own commissary. We didn't bake our own bread. We didn't have our own ZI supply. When a ship came into port, we had to wait for the bum boat to come and provide us with bread.

We found that this wasn't working; so we turned away from that and started doing these things for ourselves. But it seems to me that, other than to a very limited extent in this particular aspect, we are turning the pages of history back and going back where we have long ago learned how not to operate. Isn't there some danger in that?

COLONEL McCRAWLEY: There would be danger if we were going to dive overboard. But we are not. We are not going back to the bum boats in the Navy. The Army used to have a similar system, called the Sutler system. It was called the Sutler system because a man named Sutler had the first contract to provide such supplies. His wagons followed the troops in the field. Succeeding contractors retained the name. They became real gyp artists. It lasted from the Revolutionary War until after the Civil War. After the Civil War the Army established the commissary, because of the abuses in the Sutler system.

We are not going to return to such a system. As I mentioned in the beginning, we are talking about the twilight zone, where there is discretion to be used one way or the other. They are the areas where you can make reasonable decisions.

But the biggest bulk of support for the military is really done by the civilian economy. You might consider it like an iceberg, where most of it is underneath. What the military does for itself is a small portion of the total above the water, with the civilian effort being the remainder. It will be much more so in war.

We are not talking about big things when we talk about contracting logistic sources. As a matter of fact, the things I have mentioned are rather small when related to what we retain. But, at the same time, they are up to a hundred thousand men.

QUESTION: In other words, in doing all these things you have the thought in mind, the basic principle, that anything that you do in the way of peacetime procedures on logistic operation is, How does this radical departure meet your wartime needs? That is the basic concept behind all of this, isn't it?

COLONEL McCRAWLEY: That is correct. In all our plans we have to think of that. We have to keep our mobilization problems in mind. But we are capable of taking care of the maintenance problem in our own

depots, the ones that we have now. As a matter of fact when the Berlin airlift came along, we took care of that in our own depots at first, and then made some more contracts later.

QUESTION: I don't want to belabor the point of maintenance, Colonel, but in the ZI isn't it true that the large majority of your maintenance personnel in your depots are civilians? And, if so, what controls do you have over them, to maintain and keep them on the job?

COLONEL McCRAWLEY: In every depot we have a certain number of military personnel, although most of them are civilians in the ZI. We do have a good percentage of military. We have no compulsion over these civilians in wartime until we get means of drafting them, any more than we have over those on the production lines in our aircraft factories. We do have means of persuasion. We do have feelings of patriotism and other desires and motivation.

QUESTION: The point I was trying to make was, we have certain controls over them; but, at the same time, your organization would be split up. You mentioned the fact that you would have no difficulty in increasing to a three-shift basis there. However, even if you could draft those mechanics, you would have no assurance that they would wind up at the base, would you?

COLONEL McCRAWLEY: What I think I said was that we will have less difficulty in getting on a three-shift basis in wartime than we will in peace, for the reason that people feel an urge to do those things in wartime. They can be persuaded. There are these various emotions that are aroused at that time which will bring out women and crippled people who are not even in the work force now. We anticipate difficulty, but not insurmountable difficulty, in getting the people.

QUESTION: At the beginning of the last war there were a couple of contracts with civilian firms to do work overseas. For example, Lockheed set up a major overhaul base in northern Ireland. There was also contracting in the way of hiring civilian technicians to go overseas. Is there any trend toward that sort of contracting now?

COLONEL McCRAWLEY: No. We are not doing any major contracting of that type overseas. We do have some civilian facilities overseas where manufacturers overhaul their own engines. But for our own purposes we are not doing any large amount of contracting overseas for maintenance.

CAPTAIN BROWN: Colonel, I believe you have done more than your share of the hard work. On behalf of the Commandant and the student class, I take this opportunity to express our appreciation for a most excellent lecture and an outstanding performance in the question and answer period.

(18 Mar 1954--250)S/sgb