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DUTIES OF THE ASSISTANT SECRETARY OF DEFENSE (S&L) AND THE MILITARY STORAGE AND DISTRIBUTION SYSTEM

21 November 1955

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Honorable Thomas P. Pike, Assistant Secretary of Defense (Supply and Logistics), was born in Los Angeles, California, 12 August 1909 and attended Harvard School in that city. He was graduated from Stanford University in 1931 with an A.B. degree in Economics. Following graduation, he became associated with the Republic Supply Company of California, oil well and industrial supply jobbers. In April, 1938, he left that organization to form the T. P. Pike Drilling Company which he has headed since that time. The Company, a profit-sharing organization which is engaged in oil well drilling contracting, owns and operates a number of drilling rigs and has operated in California, Wyoming, Texas, and Mexico. He also is Western Trustee of the Council of Profit Sharing Industries, Vice President of the Casualty Insurance Company of California, and a former director of both the Los Angeles Chamber of Commerce and the Merchants and Manufacturer's Association. He is a prominent Catholic layman and has lectured on labor relations at Loyola University, a Catholic institution. On 29 September 1953 he was appointed Deputy Assistant Secretary of Defense (Supply and Logistics), and on 6 April 1954 he was appointed to his present position by President Eisenhower.

Mr. Vincent F. Caputo, Staff Director, Storage and Distribution Division, Office of the Assistant Secretary of Defense (Supply and Logistics), was born in Brooklyn, New York in 1904. He was educated in New York public schools and attended City College of New York and New York University. Mr. Caputo began his Government career in 1929 at the Navy Supply Depot in Brooklyn. From September 1941 until September 1944 he was first Assistant Property and Supply Officer, then Senior Stores Officer, at the U. S. Navy Supply Depot, Bayonne, New Jersey. In September 1944 he became the Administrative and Personnel Officer and served in that capacity until July 1949 when he entered on duty with the Munitions Board in Washington, D. C., as a Storage Officer, in the Office of Distribution Methods. He became Chief of the Storage Division, Office of Supply, in July 1952; Staff Director of the Storage Division in April 1954, and currently serves as the Staff Director of the Storage and Distribution Division, under the Assistant Secretary of Defense (Supply and Logistics). In 1947, Mr. Caputo received the Distinguished Civilian Service Award from the Navy for exceptionally meritorious performance of duty. In 1952, he received the first OSD Title X Award ever presented by the Secretary of Defense for developing a standard stevedoring contract for use by the Department of Defense which has resulted in a savings of thousands of dollars annually to the Department. This is his first lecture at the Industrial College.

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GENERAL HOLLIS: Gentlemen: Up to this point in this unit of the course, we have been discussing requirements; their origin, their evolution, their formulation.

This morning we will begin on a new phase of our discussions on the subject of organizational and operational problems in logistics.

We could not have a better qualified individual than the Assistant Secretary of Defense for Supply and Logistics, Mr. Thomas P. Pike, who is charged with these very weighty and extremely lively responsibilities which change from day to day under the duress and pressure of various government agencies and from external pressure groups.

Following his talk his assistant, the Staff Director for Material Management, Mr. Vincent F. Caputo, will discuss the operational problems of logistics.

It is a great honor, Mr. Secretary, to introduce you to the Class of 1956.

SECRETARY PIKE: General Hollis, Members of the Staff and Faculty, Guests, and Students of the Industrial College of the Armed Forces: Believe me, I am sincere when I say that it is a real pleasure for me to be back here once again. I must admit I feel a bit more comfortable on this occasion than I did on the last one, when, with but one year's experience, I was given a rather complicated and difficult subject to discuss. As I recall, I covered the subject in fairly general terms, and had to bring along a small army to answer all the questions that were asked.

I understand from what General Hollis just said that the subject of requirements computation, review, and analysis has already been treated. If one can single out a most important area in the whole chain of links that comprise the logistics cycle, this area is probably the most important, both in my opinion and in that of the Secretary of Defense.

It almost goes without saying that, in view of budget pressures, unless you establish a valid requirement that is neither too much nor too little and which represents the correct purchase, no matter how good the procurement and distribution processes are, an effective supply and logistics management job cannot be accomplished.

I am particularly honored to be here today because I have developed a strong sense of admiration for this College, its faculty and, most important, for you students who attend the courses. I have often wished that I had had a chance to take this course before I came to work here. I am sure I would have been more effective sooner if I had.

I wish to take this opportunity to compliment each and every one of the students here, because the mere fact of your presence today indicates that you are an outstanding person. I know something of the processes by which men are nominated for this College. I wish the facilities were greater; that you had more faculty members; so that we could increase by 50 percent, or even double, the number of people who can take this course.

We keep an interested and watchful eye on this College, your curriculum and your students, because of the very close parallel between what you do here, what you study, and the functions of our office. We not only have some of your graduates on our staff, but we also have our staff represented in your student body this year--Bill Guiler, who is in our Office of Transportation, and Bernie Rubenstein, who is in our Requirements Review and Analysis Office. I am delighted to see that you are participants in the course this year.

I would also like to take this opportunity to pay tribute to two groups of people, generally. These last twenty-six months in Washington have been a new experience for me. I have been tremendously impressed with the caliber of the men who comprise our civil service--these good, faithful people who do this work year in and year out. They are good Americans. They are patriotic Americans. They do their level best and many of them, believe me, are brilliant.

I would also like to pay tribute to all you men in uniform. Let me say that this experience has been my first exposure to the military, and I have not only come to know the top men in the Department of Defense, ranging from Admiral Radford and his group of Chiefs of Staff, but I have also had the pleasure of getting to know personally the top people in each one of the military departments. Believe me, to get to know

these gentlemen is to appreciate much more than any civilian ever does, I am afraid, how much all the American citizenry owes to this dedicated hard core of professional soldiers, who have chosen to make the defense of their country their career.

It is my purpose this morning to outline to you some of the responsibilities assigned to the Office of the Assistant Secretary of Defense for Supply and Logistics, and to make a few general comments which I hope will serve as a background to the remarks which will be made by Mr. Vince Caputo. We will be followed tomorrow by another very able gentleman, who is our Staff Director for Petroleum Logistics. He, in turn, will be followed on Wednesday by my very able Deputy, Bob Lanphier, who will tell you all about the Single-Manager Plan.

The charter of my office is a rather broad and encompassing one. Supply and Logistics is the largest segment of the Office of the Secretary of Defense, just by number measurement. We have approximately 502 people on our staff. The second largest group is the Joint Chiefs of Staff, with 400-odd people.

The charter of our office assigns us the responsibility for advising the Secretary of Defense on policy, performing the necessary coordination; and then assuring that our policies are complied with.

Our area covers requirements review and analysis; mobilization planning; procurement, production, and petroleum logistics; storage, distribution, and disposal; a federal cataloging, standardization and inspection program that is prescribed by public law; and last, but certainly not least, the areas of communications and transportation.

In addition, we are responsible for seeing to it that small business receives its fair share of the defense dollar, and we are charged with carrying out the Administration's policy of getting the Department of Defense out of competition with private industry. We have pushed this last program vigorously, and were making significant headway when the Congress decided to put a little road block in our way in the form of a Rider to the Appropriation Bill. Let me say on this point that there is absolutely no thought whatsoever in our office of closing any type of commercial or industrial activity which has an important military significance, either from the training of personnel standpoint or from the standpoint of mobilization requirements.

I would say that the inherent difficulty in completely fulfilling this wide gamut of responsibilities assigned to the Office of the Assistant Secretary of Defense for Supply and Logistics is the gargantuan size of the whole military establishment. Let me give you a few numbers and an illustration of what I mean.

It is probably well known to you that the total number of items in the supply systems of the military services is in excess of three million. They were originally estimated at 3 million 700 thousand. Through our cataloging program and process of purification, eliminating duplicate descriptions, we hope by September 1956 to have that total reduced by one million, so we will be dealing with only 2 million 700 thousand items. This, of course, will make that business that much simpler.

These items are distributed through 250 major wholesale depots located all over the world. These depots in turn support some 2600 posts, camps, stations and bases. I would hazard an educated guess that in the supply inventory of all the military departments there are approximately 75 billion dollars worth of materiel, spare parts, etc.

To give you an idea of how large a figure that is, I noticed an item in the press the other day to the effect that inventories, insofar as all the manufacturing concerns in this country are concerned, were coming down to a pretty healthy figure, as of that particular date within the last week. The total inventories on hand of American manufacturing concerns are worth about 79 billion dollars, which gives you some idea of the tremendous amount of materiel we have in our stocks.

Of course, another indication of the size of the Department of Defense is that, with a little less than three million people now in uniform, and a little over one million civilians, we have a payroll of four million people. This combination all adds up to a larger amount of people, dollars, and materiel, no matter how you want to look at it, than any combination of the largest corporations in this country. Therefore, this is a tremendous challenge to management.

I am sure I don't have to point out to you that a major part of our defense budget is spent in one form or another in the field of supply and logistics. I am certain you are aware that in budgeting procurement items in the services, there is a tremendous amount of materiel involved in the personnel end of the budget, for such items as food, clothing, maintenance and operation. We consume, even in peacetime,

tremendous quantities of aviation gasoline and jet fuel. I don't have the exact figure, but a good 60 percent to 70 percent, I would think, would be a conservative estimate of the total amount of the defense budget that goes into supply and logistics type of activities.

This management problem is further pointed up when you consider that the Hoover Commission recently undertook an examination of several Government departments, and in the Defense Department perhaps a good 80 percent of their task force reports and recommendations concerned our area of supply and logistics. Having read and studied these reports in quite some detail, I can say that, in my humble opinion, there is plenty of room for improvement ahead.

I think that, with pardonable pride, we can point out to you some of the very substantial achievements we have been able to make to date, but the job is not finished by a long shot. Let me give you, at random, some examples of how, cutting fat administratively and introducing more modern methods of business management and business systems into the running of this gigantic establishment, we can transform fat into muscle. For instance, in this Single-Manager plan for subsistence, which you will hear more about on Wednesday, it is a fact that, in Fiscal Year 1955, 1 billion 100 some odd million dollars were spent for food for all the armed services. That does not include any overhead for the management functions which go along with this one category, and which I believe involves only 600 some odd items.

In this improved management approach, we can get hold of requirements. By applying the excess supplies of one service to the procurement needs of another, we can make substantial savings. Ten percent would amount to 100 million dollars!

In terms of the budget battle that is being fought today, let me call your attention to the fact that the Army's major procurement and production budget has been cut back. They recently placed an order for the M-48 tank. This was 73 million dollars. They recently placed an order for some 270 of the 40 millimeter twin guns mounted on light tank which is going to amount to 25 million dollars. They have a requirement, not yet approved, for 155 ammunition that is going to amount to about 21 million dollars. These figures I just gave you add up to 119 million dollars. You see, with a potential saving just in the management phase of the business, we could almost buy that major hardware.

In the transportation area, we have a task force, with the blessing of the Secretary of Defense, currently working out a new concept for a new, single transportation agency for continental United States, covering all modes of transportation. The current peacetime Department of Defense bill for the transportation of people and things amounts to almost 2 billion dollars a year. Through this sounder approach to the management of this business, emphasizing the rates and cost phases, a 10 percent saving would be 200 million dollars.

As I indicated before, our most important job is to be as certain as possible that we buy the right things. This is an even more difficult task today when we are phasing out of conventional type weapons and getting into production on some of the newer types. We cannot let ourselves get into a position where we would be unprepared to handle a brush-fire type of conflict that might well arise. Therefore, judgment becomes an extremely important factor in this whole business of making certain that the things we spend our dollars for are the right kind and are in the proper quantities.

In closing I would just like to make this observation and develop it very briefly. I think I mentioned this to the group last year. I have long held a strong personal conviction that this country's most tremendous undeveloped resource is her people. I would like to suggest that you do everything in your power, when you go back to your jobs, wherever they are, to develop techniques, ways, and methods of tapping the tremendous vein of ability, experience, and know-how that is always contained in any group of men who work for or under you.

In my company, from which I resigned as President and Director, we have had an incentive management and profit sharing plan in existence for some eight years. Let me give you my former company's management credo to illustrate what I have been talking about.

We share profits (defense) because these are our principles:

1. We believe in the dignity of man and his work. Christ was a carpenter.

2. We believe the individual employee is the most important single factor in the business.

3. We believe in the limitless latent ability of man. He was created in the image and likeness of God.

4. And most importantly, we believe that our prime responsibility as managers is to create a working climate abounding in incentive and opportunity for worker recognition and participation, to the end that each individual can achieve his fullest personal development.

In this connection, let me also make a comment that I have observed during the short time I have been down here. There is a terrible, almost cancerous, type of tendency to defend the status quo. Gentlemen, there is no such thing. You either move ahead or you retrogress.

If there is one thing which I hope can be developed during the remaining part of my tenure in office, it is that my people and those in the military departments, with whom we work so closely, will each examine themselves, their systems and methods, and, when either has been wrong, to admit it promptly and do something constructive about it; and to work together in a cooperative fashion.

In closing on this note, I would like to ask of every person present in this audience that if at any time--today, tomorrow, or in the course of a year or so--you have any idea as to how we can do our job in supply and logistics better, you will let me know. Write or come and see me. I will be happy to discuss it, and, if we can make use of your suggestion, we will do so.

Finally, I have heard people say that working in Washington is frustrating. I have come to understand a little bit about what these people mean when they say that. I decided that if I were going to get frustrated, I might as well turn around and go home. I did not want to do that. It was and is a tremendous challenge to be here.

Let me close by giving a prayer that has been helpful to me. It is not original. Many of you have heard it before. I think it is applicable to the kind of work those of us in the Pentagon and you, here, come in contact with. The prayer is simply this:

"Almighty God, give me the serenity to accept the things I cannot change, the courage to change the things I can change, and the wisdom to know the difference."

Thank you, gentlemen.

Gentlemen, I neglected to introduce the next speaker, who is Mr. Vince Caputo, our Staff Director for Storage & Distribution. Vince, I want to tell you, is one of the best of all the hard-working people I found here. Mr. Caputo.

MR. CAPUTO: Mr. Secretary, General Hollis, Guests, and Gentlemen: I welcome this opportunity this morning to talk to you about our military storage and distribution systems. The very fact that your staff has scheduled this subject for discussion during the previous two academic years is testimony of its importance and dynamic influence on the overall logistics field of planning. In fact, any doubt as to its importance, or at least to its public appeal, must certainly have been dispelled by the recently issued Hoover Commission Reports and the congressional hearings of the last session. To be quite frank about it, we are anticipating even greater interest when Congress reconvenes in January.

It is my intent today to explain to you why this subject is so important, what we are attempting to accomplish, and where our programs and policies will lead us.

Now, before I get into the "why" I do want to say that Mr. Secretary has not followed the script and I may repeat some of the things he has said in his talk. But it is an indication that we are all thinking along the same line.

As to the first part, the why: Any one of our military services is larger in manpower, money, and inventory, than any combination of five great United States corporations. In storage and distribution alone, we have 250 major depots, which are serving 2600 bases and stations, world-wide, which in turn support 10,000 units or activities; and they are using 18 billion dollars worth of real property to do that job. We are dealing with approximately 3-1/2 million items, as the Secretary told you, involving 6 billion dollars worth of industrial production equipment, and approximately 100 billion dollars worth of personal property.

It is a complex and difficult operation to maintain and manage these billions of dollars of personal property to insure a proper materiel readiness. The range of items involved is tremendous. The variety of interests that must be served and recognized are many. The systems and procedures employed must be flexible and responsive to required changes. Resources are limited and the utmost economy

is imperative. The logistic organization to cope with these conditions must not only be operative but capable of immediate expansion. The policies devised must be sufficiently flexible to meet cold or hot war needs, current or long-range actions, and peace or mobilization plans.

At this point you might inject a "why" of your own; namely, "Why should we do anything about the supply systems when actually we gained an outstanding victory in World War II using the supply systems we had?" The answer is rather simple. First, it is an accepted principle that the next war cannot be a war of plenty, as was the case in World War II. Second, the way to make progress is to study both our successes and our failures and then to take action to improve the former as well as to eliminate the latter. And third, we must anticipate that the next war will be different in character from either World War I or II.

Perhaps the most significant lesson to be learned from World War II is the military potential of a nation is in direct proportion to the nation's logistic potential. That our resources are not unlimited is the first hard fact faced in applying that lesson. Next is that delay or inefficiency in harnessing our logistic resources could cost us victory in a future conflict. Modern managerial improvements must be continuously and vigorously sought and applied. In other words, we have to have balance and realism in a program that involves millions of items, varying degrees of deterioration, and consumption rates that can vary from day to day depending upon conditions that cannot always be anticipated.

Supply efforts to support combat forces can mean a number of things. In the days of the cavalry, it meant providing forage at the end of the day's march. In 1942, it meant amassing the men and materials with which to assault Europe. In the cold war situation, which characterizes the present day, supply means something else again.

Three major factors govern the conduct of military supply in today's existing climate of political and military affairs. They are: (1) the continuing threat of an enemy attack and the possibility that the attack, for which defenses must be constantly marshalled, may never occur; (2) the continuous need for the development of new weapons and improvement in the art of war; and (3) the limitation on the dollars and the materiel available for defense.

The continuous threat of an enemy attack means that the supply systems may be called upon at any time to support combat operations.

The attack may involve a major conflict initiated, perhaps, by a devastating assault upon the industrial plants and the major military bases within the United States. Or, the attack may be limited in nature, confined to a distant localized area and requiring long lines of supply from the United States.

These realistic alternatives, plus the ever present possible degrees of such alternatives, of necessity make supply management a dynamic field, and one which is subject to constant change. To put it simply, you cannot move men at a hundred miles an hour and move supplies at ten miles an hour. Moreover, as the pace of civilization is stepped up, so must be the pace of supporting activities.

If the danger of an enemy attack were the only consideration, the nation might well maintain the military establishment on a war footing at all times. There are factors in the situation, however, which preclude full mobilization. The safety resulting from a military establishment on a war footing must be weighed against its attendant cost. When I say cost, I do not mean the dollar sign only. I also mean facilities, manpower, and materiel. While full mobilization might produce maximum short-range security, in the long run it might so weaken the nation's economic potential that the ability to resist aggression might be impaired. Thus, a carefully considered compromise must be effected; and this compromise consists of constantly equating the needs of national safety with the objective of maintaining a healthy economy.

Supply systems and procedures can no more stand still and be fixed than can the implements of war. Thus, with the advancements made in technology, as well as in the art of waging war, changes must also occur in the supply systems upon which a strategic mission rests. That is why we are constantly studying the management of the supply systems. That is why new and ever changing policies and procedures are issued in the fields of storage and distribution. And, equally important, that is why at any given time investigation may reveal conflicts or even outmoded methods, just as investigation may reveal the existence of outmoded guns. It takes just as much time for management policies to catch up with management needs as it does for weapon changes to catch up with combat needs.

For all the above reasons the "what" part of our job can be easily stated but difficult to accomplish.

Before exploring this second phase any further, I wish to clarify one point that will be applicable throughout the remainder of my discussion. All Department of Defense directives and instructions are developed jointly by the military departments and the Office of the Secretary of Defense. It is not our purpose in the Office of the Secretary of Defense to either preach or practice a "go it alone" philosophy. No one has a monopoly on ideas, intelligence, or sound management judgments. Every policy document issued represents the results of hours, weeks, and, in some instances, months of hard work by task forces or working groups consisting of representatives from the military departments and my office.

This procedure of joint effort is reached at the Director level in our organization with the Supply Managers of the four military services, and again at Secretary Pike's level with the Materiel Secretaries. We have long recognized that the ultimate success of any document or system depends upon its "saleability and usability" to its ultimate consumer--in this case the Army, Navy, Air Force, and Marine Corps. Thus, from this point on, whenever I mention the Department of Defense or the pronoun "we" I mean the four services and the Office of the Secretary of Defense.

Perhaps I can best summarize the "what" part of our job by saying that the task of supply management is to appraise and control the cost of supply without impairing the ability to supply on time and in required quantities. The development of storage and distribution programs within this overall goal is a formidable task. They not only have to be correct item-wise and quantity-wise, but they also have to be synchronized with strategic and operational plans.

Our main purpose in storage and distribution is to provide the highest degree of effectiveness at the least possible cost. To do this we must reduce inventories and eliminate unnecessary duplication and overlapping at the same time. In attempting to achieve these worthwhile and often conflicting objectives, we have adopted a two-pronged course of action:

First, recognizing and, in a sense, exploiting the close and interrelating elements existing between storage and distribution, and, second, achieving a commonness of action wherever it has been found to be in the best national interest.

Perhaps the most important policy documents issued by the Department of Defense in these fields are those pertaining to cross-servicing, stock levels, interservice supply support, and the positioning of materiel. These policies, more than any other, hit at the heart of the most frequent criticism of the Department of Defense--you gentlemen have heard it; I have heard it--waste in military supply. They are equally important because for the first time they make possible the fulfillment of requirements for any one of the military departments without the attendant increase in cost, whether the cost be money, materiel, facilities, or any other national resource. To put it simply, interservice support and cross-servicing give each of the military departments access to the full potential of the entire Department of Defense's assets.

These policies provide that each military service request supply support from another military service in each instance where support is feasible and available from the other military service. Our criteria for policies of interservice supply support require application at all levels of supply management and command--from the Washington level to the post, camp, or station.

At the same time, our storage cross-servicing document requires the use of vacant storage space of one military service in an area by another service before we consider construction of additional storage facilities in the same area. Publication of these directives creates a sound basis for normal routine interdepartmental use of storage facilities Department-of-Defense-wide.

At this point I would like to deviate for a brief moment to emphasize one aspect of this situation which invariably causes concern and comment; namely, the problem of manpower ceilings at the depot and station level where cross-servicing must take place. On an overall basis, cross-servicing will usually conserve manpower. However, it is possible that a situation may arise where the implementation of cross-servicing policies would cause a manpower requirement in excess of the authorized ceiling. The Department of Defense has recognized this possibility and has issued a policy document which sets forth the procedures by which temporary transfers of manpower may be effected to meet such needs. In other words, provisions have been made for reimbursement of costs and transfer of personnel between and among the services or installations in order to maximize the cross-servicing potential.

Earlier, I mentioned a policy directive on positioning of materiel, which I placed on an equal plane in importance with cross-servicing. Actually, they go hand in hand; for one without the other would yield little.

Our aim in positioning materiel is to place the goods where the user can get to them with the least effort, consistent with economic movement from producer to consumer and minimum stockages. We know that we cannot economically repair an engine in Seattle with parts stored in Miami. Therefore, we have required that supply placement be tailored to meet the particular needs of an area; emphasizing the important aspect that materiel must be placed where it is most economically available to combat forces when required. In so doing, we are stressing carload shipments directly to user, utilizing traffic specialists for proper routing and rate advantages. We are encouraging local purchase, wherever feasible, to meet local needs. It has been established that we will rely upon and use the commercial distributive systems of the civilian industry where such use will improve the distribution pattern or avoid additional construction of warehouses.

While the aforementioned comprise interrelating and across-the-board policies in supply management, we have also devoted much time and energy toward achieving internal improvements within the various individual supply systems. In inventory management, for example, each military service must now operate its supply system through specialized organizations known as supply and inventory control points. These are organizations which are assigned the full responsibility for efficient management of different categories of materiel on a worldwide basis. Within a service, no item of materiel can be managed by more than one supply and inventory control point unless it is fully justified. In addition, each military service must carefully and periodically examine its need for each item of materiel stocked and all stock found to be beyond realistic needs, including normal requirements, mobilization reserve, and reasonable future needs, must quickly be declared excess and disposed of in order to free storage space, reduce storage and handling costs, and recover as much of the materiel cost as possible.

We have also established a common series of principles for the management of our materiel pipeline. This pipeline extends from the point at which an item is produced to points throughout the world where supplies are consumed. Studies of our old pipeline methods revealed a myriad of differently stated levels and criteria and a host of other

differences in the various segments of the line. A recently published policy document applying to all the services outlines the considerations to be used regarding procurement and delivery, the size of stock levels and how they will be developed, management of in-transit stocks, and management of operating stocks at central and local distribution points. This policy further provides a uniform language and a single set of yardsticks by which to manage our pipeline. For example, all services are now uniformly stating stock levels; all services determine frequency of replenishment shipments on a single set of guide lines; all services now employ a uniform set of evaluation criteria on determination of safety levels; and, in-transit stocks, heretofore forgotten, are now uniformly calculated.

We have also, during the past year, established policies to govern those aspects of mobilization-reserve stock management which can be effectively regulated. First reserve stocks are restricted to those items which will be essential to mobilization missions. Next, reserve stocks are not static. They must be attuned to the current equipments and techniques which are constantly being developed. We have provided for the rotation of materiel so as not to enter an emergency situation with only old stocks in reserve. We have planned for the location and availability of these stocks so that the combat troops may have ready access to them.

With the cessation of hostilities in Korea, the Department of Defense found itself with stocks of materiel for which there was no immediate requirement. Such stocks are termed as being in long supply. In an endeavor to avoid the mistakes following World War II, when materiel was hurriedly disposed of, at virtually give-away prices, and then had to be procured at full price only a short time later, we have established what is known as an economic reserve. Under this policy, materiel which was on hand at the end of the conflict and for which no immediate requirement exists was held in reserve and further procurement halted until this reserve is used up. In those instances, however, where it is determined that the costs of storing the materiel until needed in the future are so great as to equal, or exceed, the price we would be forced to pay for a new item, disposal of the item is authorized.

Our storage programs have kept pace with the progress achieved in inventory management. In addition to the cross-servicing policy discussed earlier, we now have a policy which helps us to assure that the military storage facilities are being properly utilized. By means of a uniform system of reporting we now receive information on the use

and occupancy of storage space throughout the world. By reviewing and analyzing these reports, we can determine whether or not facilities should be consolidated, closed down, or expanded. In addition, we can more intelligently evaluate storage-facility requirements of the military departments. On the basis of such reviews, in fact, recently we were able to effect transfers between departments of seven depots totalling 10.8 million square feet of covered space; reduce construction programs; and release facilities outright. Dollar savings resulting from these actions are estimated as approximately 31 million dollars.

To protect our investment both in supplies and facilities and still retain good utilization of space, we have set forth uniform fire-protection standards for the storage of military supplies. The adoption of these standards will permit the ultimate recovery of approximately 7.5 million square feet of net usable warehouse space which has a replacement value of approximately 75 million dollars.

We are developing a comprehensive joint manual on storage and materials handling. This manual prescribes policy, criteria, operating practices, and procedures to be observed and used uniformly by storage and warehousing personnel throughout the Department of Defense. It will replace numerous separate manuals now published by the military departments and, for the first time, will provide a common language for storage and warehousing personnel.

Another major storage program worthy of mention pertains to non-temporary storage of household goods for military personnel. The Department of Defense supported legislation which authorized such non-temporary storage, and this legislation has been passed as Public Law 245 under the 84th Congress. It provides that the household goods of military personnel can be placed in commercial rather than in government facilities when this is more economical.

Incidentally, from the reports that come in to us from the departments we have estimated that we will save 5 million dollars a year by resorting to the use of commercial storage.

Another major program which we expect will yield great benefits, both in dollars and in increased efficiency, involves conversion to and utilization of federal catalog data. Through the Federal Catalog Program, each given item of supply is assigned the same catalog number, given the same name, and described in the same manner, regardless of where it is to be used in the Department of Defense. Similar items

are described in the same manner and are classified so that they fall in related groups and classes. During the cataloging process, valuable information is collected and maintained in a central location as to which of the military services uses each item and what companies manufacture it. In brief, the military supply managers are now beginning to use a common language in the details of their day-to-day work.

Stated so simply, it is easy to miss the full import of what this means to the Department of Defense. All of these products are very significant "firsts" which open up broad avenues for improvements and economies in supply operations. For this reason, we are not waiting for the completion of the catalog job but are progressively converting to the new Federal Identification data. As individual classes or groups of items are cataloged we, in turn, set the conversion process in motion. The change over to the new identification data for each item that is controlled, procured, stored, used, or referred to in any way within the Department of Defense involves what well may be one of the greatest single documentation efforts undertaken on the part of the Government.

We have explored the many functions involved in military supply to assure ourselves that we will not miss any of the opportunities for increased efficiency and economy made available to us by the existence of a single, standard, identification for each item that we use, as well as standard groupings of items. I realize that we couldn't hope to discuss all of the possible areas of use, but I should like to give you a couple of examples of places where we expect to speed up our operations and still save money because of this common language.

In our efforts to reduce inventories and new procurement, we are striving continuously to maintain the minimum number of different items throughout the defense supply systems. This requires comparison of existing items being used by each military service in order to ferret out duplications. It is obvious, then, that use of the same identification language, instead of two or three or four, simplifies this operation. Using the new Federal Supply groups and classes also facilitates comparison of like, but not identical, items to determine whether the existing minor differences are necessarily a reason for retaining two or more of the same variety in the system.

To cite another field of endeavor, the military departments, like all the other agencies in the supply field, are continuously finding items in their systems in excess of foreseeable needs. An excess

item in one department, however, may be required in another, so, before we remove it from the system, it is offered to all other supply managers. Each offering department lists its items according to its own description. Then the potential user must attempt to match the offering language with his own description to establish his requirement or disinterest in the offering. It is easy to see, in these cases, where the use of a common language increases material utilization, speed of screening, and saves money.

Incidentally, this last example pertains to the field of disposal, and no discussion of storage and distribution would be complete without a brief comment on our programs in the disposal field.

One of the major efforts of the Department of Defense has been operation "CLEANSWEEP," a program designed to rid the military supply system of excess stocks. These surpluses undermine the efficiency of logistic activities and are indefensible from the standpoint of good management. The surplus problem assumed major proportions after World War II with the accumulation of vast imbalanced stocks, including many items that became obsolete in the course of a few years. Programs for the sale of surplus stocks in the immediate postwar period generally concentrated on commercially usable items, thereby leaving huge quantities of military equipment, weapons, and supplies virtually untouched. To these stocks has been added a great volume of materiel procured during the Korean hostilities.

To dispose of items no longer usable, the military departments must first offer such items for redistribution to the other military departments and then through the General Services Administration to other federal agencies. Also, existing law provides for the donation of surplus personal property to public health and educational institutions and to educational institutions of special interest to the Department of Defense. Finally, those items for which there is no governmental requirement are offered for sale to the public.

Our disposal program is aimed at clearing these surpluses from the supply systems expeditiously, yet insuring the optimum return to the Government for each tax dollar spent. Approximately 1.4 billion dollars in surplus at acquisition cost was sold during fiscal year 1955, on which we received a return of some 10.2 percent. This is an increase over the 7.1 percent proceeds returned during fiscal year 1954. This increase has not been accidental.

Incidentally, when the Hoover Commission recommended that we attempt to look into getting a greater return they noted that by an increased return of 1 percent the Treasury would get 20 million dollars. As you know from what I have stated, that increase during the past fiscal year was 3 percent. We are still striving to get more return for our money.

Again I want to emphasize that this increase has not been accidental. On the contrary, it has stemmed primarily from a series of interrelated policy documents designed to stimulate sales and to provide for a greater dollar return. Such policies embrace the field of merchandizing, screening, and utilization.

Most of my discussion thus far has encompassed going programs and policies of the Department of Defense. No such discussion, however, would be complete without relating this subject to the recently issued Hoover Commission reports.

As you may know, many of the Hoover Commission reports pertained to the field of supply management, with specific emphasis on storage and distribution operations. All of the Hoover Commission reports are being thoroughly reviewed. Each of them will be the subject of a complete Department of Defense position statement concerning its applicability. Until such time, however, as the President endorses or releases these position statements, we cannot assume that they represent Administration policy; thus, they have not been released and I am not at liberty to discuss their contents.

I can, however, tell you this much. The Hoover Commission reports revealed some discrepancies and deficiencies, as well as human errors. The discrepancies and deficiencies can be corrected and will be wherever active investigation bears out the facts reported. At the same time, every effort will be made to reduce the human errors. In evaluating the Hoover Commission recommendations we found that many of them have actually been "going" and approved policies of the Department of Defense for several years; others were and are in the process of development; while still others will be adopted in the months to come.

This is not an attempt to whitewash the Department of Defense. Concurrent hauling of tomatoes from one coastline to the other did occur. We anticipate, however, that the effects of our current cross-servicing and interservice supply-support policies will tend to prevent a recurrence of that situation.

Perhaps the most significant aspect of the Hoover Commission reports was to underscore the point I have been trying to make this morning, and that is, supply management is not an exclusive function of each military department, but rather an overall responsibility of the entire Department of Defense. As I stated earlier, no one has a monopoly on ideas or sound judgment. We welcome constructive criticism from the Congress, from the Hoover Commission, from the Cooper Committee, and from John Q. Public, himself. But the art of supply management frequently becomes a balancing act that does not lend itself to scientific solutions.

The programs and policies I have outlined to you are predicated on the philosophy that we can achieve the best management of the Department of Defense supply systems by making maximum use of the existing facilities, know-how, and skilled personnel of the military departments. We are aware, as I stated earlier, that ever changing conditions and refinements in our military systems also require changes and refinements in the supply-support groups. At times we are confronted with conflicting yardsticks; at other times we are confronted with the institution of new concepts and the culmination of old systems. Since it is not possible to introduce something new or modified at the identical moment something else becomes out of date or subject to change, at any one time a spot study may reveal waste, overlapping, or costly operations. We are very much aware of this and at all times try to take all possible steps toward preventing such situations from occurring.

But in seeking the answers we realize that there is no one solution, just as there is no one problem. We must always seek to achieve elasticity in our supply systems, for essentially that is the only means we have with which to maintain a balanced program within the structure, in view of the continuous changes required.

The relationship of supply to strategy and of supply to the general economy is the central element in mobilizing the industrial resources of any country in time of war. In achieving these ends, we are continuously studying new methods and new approaches which can be successfully and realistically applied to our going military concern.

I appreciate greatly the opportunity I have had to discuss this area with you this morning, and I thank you for your most kind attention. I am sure that some of you will have searching questions to ask, and I will be happy to answer as many of them as time allows.

Thank You.

COLONEL SEEDS: Gentlemen, our speakers are ready for your questions. Will you please indicate to whom you are addressing your question?

QUESTION: I would like to address my question to the Secretary. The Hoover Commission in its report on the business organization of the Department of Defense, recommended that a new organization be established for the supply of all common items to the three services. Why was this type of organization not adopted instead of the single-manager plan?

SECRETARY PIKE: That is a good question. In the first place, in answer to the first part of your question, as Mr. Caputo has indicated, none of the Department of Defense decisions on these Hoover Commission reports has been finally agreed upon. I should not say that. Many of them have been agreed on; but the release to the public is still a matter that is in the hands of the White House. As we complete our job, our ideas are funneled to Secretary Wilson and through him they are funneled over to the White House. We now have a new group over there.

With respect to your second question, we had this single manager concept under way and under study in our office a year and one-half or longer before there was any publication of the Hoover recommendation for the fourth service on supply to the services.

QUESTION: Mr. Pike, while we are on the Hoover Commission, I noted that they recommended reducing the Assistant Secretaries to four, making your office a much bigger one, by bringing properties and installations and military applications into it. Would that make your office too big, or would it streamline and make your work more efficient and better?

SECRETARY PIKE: I told the Secretary that if they did that to me I was going home right now. That is again an area in which the Secretary of Defense himself is going to make the final decision. I have some ideas on it; but again, all aspects of the Hoover Commission report on the business organization of the Department of Defense will be handled by the Secretary. We have a very interesting situation. He has to make a decision in terms of the data that came out of that report. I am looking forward with as much interest as you to the Secretary's final recommendation on that.

QUESTION: Mr. Secretary, a great deal of interest has been generated around here on this single-manager concept in the supply field. I was wondering whether at the top, at your level, that concept is one of complete managerial authority or whether it is merely another one of those Joint Staff crises. Would you care to comment on that?

SECRETARY PIKE: Yes. Inherent in this concept of the single manager is to place the authority in one person. It is based on the concept that the Secretary of a military department will have responsibility and full accountability for all the management aspects within an assigned commodity area. In the case of subsistence, the Secretary obviously cannot do that himself; he has to assign it to some one. That assignment has been made to the Quartermaster Corps in the Army, which is busy working out ways and means to implement the authorities assigned.

The central idea is to place in one office the full responsibility for these very important phases of the supply chain that all have a close interrelation; namely, requirements, inventory control, procurement, and distribution, down to the wholesale level. This is one area in which we felt a business-like approach could be made. You would certainly never find in business any organization distributing in a major fashion across the country, computing requirements in one place and having all the stores and loading them in another geographical location; having an individual manager located at another geographical location and a procurement officer somewhere else.

All of these things each have a very important interrelationship, and for the best potential management to come out of that area you have to have these things brought together. This does not mean that we have abandoned at all the general concept of decentralization. This you simply have to have in an organization as large as the Department of Defense.

We don't say the Single Manager is the answer to all the problems or all the questions, but we feel that we would be derelict in our duty in our office if we did not constantly seek out and try newer and better approaches to some of the problems that we face, especially in that direction.

QUESTION: I would like to continue on that same subject, Mr. Secretary. What is going to happen when war comes and we have full mobilization, with this one-manager supply situation? We had a bad

enough time with two services in the last war trying to handle this. When he is procuring all the supplies for the Army, the Navy, and the Air Force, in the tremendous quantities they require, how is he going to know what to do with them? I think one office cannot do much about it.

SECRETARY PIKE: When war comes, when mobilization comes, everything expands. You have problems with people. By the same token I don't see why this won't work just as well as any service procurement assignment where one function of buying is assigned to one department on behalf of the others. The Quartermaster Corps has been accomplishing all the procurement for the Army and the Air Force, and the major part of the subsistence requirement for the Navy. So far as procurement is concerned, they have a magnificent organization set-up. It is a fully decentralized organization.

I see no reason why, if we have enough time to get this thing working, it should not work just as well as a separate procurement program assignment, without the other inventory and distribution management aspects of it.

STUDENT: I was thinking basically of the distribution end of it, and also the procurement of other things besides food.

SECRETARY PIKE: We are not talking about other things at the present time.

STUDENT: Is the single-manager concept going to entail the various requirements of the services eventually?

SECRETARY PIKE: No; no. Its application we feel is possible in the area of some common-use types of items. We felt that subsistence was the best one to start it off with to give it a trial, because in the area of subsistence you have the most complete interchangeability of any class of commodity.

QUESTION: Mr. Secretary, I was very much interested in your credo, in which you encouraged the initiative of the individual worker. I was also very much impressed with Mr. Caputo's very long list of multitudinous management programs of the Department of Defense. Do you feel that some danger point might be reached where the Department of Defense is doing so much that you might stifle the interest or initiative of the services in their own improvement programs?

SECRETARY PIKE: No, I have no fear of that at all. As a matter of fact, one of our obligations, our responsibilities, in our office is to coordinate. This is a little word that covers a tremendous field. I am constantly, as I travel around to installations, finding improvements. I just learned the other day about an operation the Army has had going for some time, called "Operation Trim." Out at Detroit, in the field of automotive spare parts, particularly the high mortality, fast-wear-out items, instead of carrying piston rings and all the multitudinous components types of items, they are putting a whole package together. This means fewer items in the system. When the supply sergeant at his end of the line goes for a replacement he will get the whole package, instead of making out a requisition for several items. My first queston was: Do the Air Force and the Navy know about this approach?

This is good. By the same token, the Navy has done many things itself. The Air Force has come up with several very interesting concepts on its own. They have the inspecting-repairs-requirement proposition, and they have a couple of others.

Our constant job is to see that what is developed as a good technique in one of the services is transmitted to the other services so that they can have the benefit of it.

I would certainly hope that nothing we ever do would stifle the tremendous potential capacity that exists in the three services.

QUESTION: Mr. Caputo, one of the headaches in the Army distribution in the field is the immense isolation of the depots from the point at which the Army needs supplies for the corps or division level. Has anything been done to utilize materials of the block-loading or package type so that in unloading truck deliveries something ultimately could be done to avoid using manpower?

MR. CAPUTO: Yes; we are experimenting with unit loads and mechanized handling. I wanted to bring this out, but my talk was limited. In the field of unit loads we are now working constantly with the builders on the types and categories of materials we can use.

For example, in detergents, we have under contract what we call a contract load. A carload of soap which was unloaded manually would take six men a little better than one hour and 15 minutes. We have a contract to have the soap come in bales, and one man with one fork will get the car unloaded in less time.

We have experimented with the unit load on ships. We tried it out on one we sent to Pearl Harbor and we found it could be done. The contours of a ship do not lend themselves to the maximum use of the cube. We had to turn that ship around, and we got it loaded in 18 percent less time than it would take if it were loaded manually. We had less cube, or space, in the ship.

We are constantly working with industry, advisory groups, and engineers, in order to come up with a good system of mechanized handling.

QUESTION: Mr. Secretary, my question has to do with the short tenure of office of not only the secretaries of the respective services but the under secretaries. That includes Defense as well. You and Mr. Caputo have both emphasized the magnitude of this management problem, but yet your vice presidency, I have heard, has been authorized for only from 14 to 16 or 17 months as an average. It seems to me there is a tremendous weakness in this whole system. I wonder if you would comment on it.

SECRETARY PIKE: I could not agree with you more. You probably have read Hansen Baldwin's article in the "New York Times." He points the finger at Wilfred McNeil as being the real voice of experience in Washington, having been in Defense since Jim Forrestal set up the department in 1947.

Yes; certainly this is a problem. I frankly do not know what the answer to it is. The first effort could be, of course, to try to ask men, when they are asked to come down, to stay for as long a period as possible. I think perhaps some errors were made. I certainly made such an error myself when I came down here. I at first set out to find men from industry, whose backgrounds I felt most closely applied to the five directorates we have in supply and logistics. I made the mistake of settling for one thing, being under the impression that we could have the top vice president of one of the major corporations down here to work with us. We felt he could give us some guidance while we tried to get this business on the road. I found that in two years you just begin to learn a little bit about the ABC's of the business. You have the political nature of the appointments, and the presidential election sort of puts one limitation on the other.

I would certainly agree that one of the recommendations that the Hoover Commission has made is a sound one, that a great effort should

be made to develop a sort of super-type of civil service person who would step in all of these important jobs as understudies, and who would give that tremendously important sort of continuity from administration, to back up the 16-month assistant secretary.

You are certainly correct. I think in the United Kingdom they have accomplished this to a much better extent than we have. They have done other things there. They have put real prestige on some of these jobs. Knighthood has been made available to some of them. Salary is a thing I don't think you can overlook altogether if you are trying to attract good people.

You have certainly put your finger on a very weak spot in the overall organization.

QUESTION: Mr. Pike, sir, to go back to this single-manager concept, I understand General Motors and other big companies do not practice the single-manager concept in the purchase of common items. They use Frigidaire and Delco, and so forth.

Many speakers we have had here from many departments say it is almost too big a job in their departments to purchase their own service requirements along a much less consolidated approach.

What was the impetus that forced the Department of Defense to go into this? Was it an actual study that showed dollar savings or efficiency, or a corrective action because of the initial action of certain people in their own departments? Will you answer that?

SECRETARY PIKE: To my knowledge, so far as the initial impetus was concerned, when I first came down here I started reading the reports of the previous congressional committees. Congress has had a long, deep interest in this field. That is something you don't discover right away. I developed a friend up there who has a very keen interest in this matter. He has written to me and to the Secretary of Defense many letters. I have had him down to lunch several times. He has done a good job of quizzing me and other civilian secretaries in the Department of Defense.

I found out that in the Munitions Board, the predecessor organization to our office, many, many studies were made, as a matter of

fact. We claim no originality for this concept. I came across a very interesting document that was part of a report that a department vice chairman, I believe, of the Munitions Board, back in 1947-48, left behind him. He had a very similar concept, a very similar idea. His only trouble was, he seemed to be the only man in the Pentagon who thought it was a good idea.

I want to remind you again that we do not make any claim that this is going to cure all the evils and be the answer to the prayer. But I still maintain that single-service procurement has worked. Why can't all the rest of what I call the fat part of this procurement business, namely, your requirement collation and distribution, be tied into it? I will certainly be the first one to vote for throwing the system out if it does not work.

COLONEL SEEDS: Mr. Caputo, have you anything to say on this subject?

MR. CAPUTO: On the single-manager plan, Mr. Bob Lanphier will be here Wednesday. All these questions you gentlemen are raising will be answered by Mr. Lanphier. We have a good show ready for you Wednesday. I would like to beg off or this.

SECRETARY PIKE: Let me tell you this, those of you who are worried. One of the things that has impressed me very much in having had the opportunity of being a member of this civilian Defense team down here is the way the group works together.

Whatever the military apprehension is among you as a group, or among you as individuals, the top people, both civilian and military, in the military departments have worked with my office on this. This is the great job we have. If we think we have a little better solution for a problem and a better way to handle a business, then our job just commences. We have to sell it to the Army, the Navy, and the Air Force. It is the same way in private business. No manager or president of a private-enterprise corporation ever does any good with his people by saying, "I have thought up this idea. I know you do have experience, but I am the boss, and this is the policy." That has never worked.

There was a lot of selling, persuasion, and everything else at various levels between our office and the military departments, as well as top side, before this idea was ever approved.

QUESTION: Mr. Caputo, I have noticed that many of these management improvements mentioned in the management part of your talk placed emphasis on civilian industry. What is going to happen on M-Day when we have everybody in the market competing for requirements, bearing in mind that we have a system of private enterprise which is based on laissez-faire?

MR. CAPUTO: The management improvements I outlined where reliance would be placed on civilian industry would be only in the dispersion field. We rely on them now. I don't see any difference then from what we are doing now, outside of putting greater emphasis on it in order not to have a lot of white-elephant warehouses when M-Day comes. Today we have put our essential industries on a dispersal basis to get the maximim benefit from our supply sources. But we have always been relying on commercial industrial developments.

STUDENT: I believe there is an increasing trend. I noticed that the Secretary said his business is to put the Government out of business when it is in competition with private enterprise, and put increasing reliance on local purchase and such things. That could get out of hand.

SECRETARY PIKE: What do you fear on that score?

STUDENT: I fear that we have not learned the lesson of economic mobilization in this country as well as they have in Great Britain. On M-Day we place our reliance on voluntarism in private industry to give us what we need. If voluntarism does not work--and it has not in the past--we have to institute controls. Suppose we have an atomic war and we don't have time to stumble along? What will happen?

SECRETARY PIKE: Give me an example of that in industry, in a commercial activity.

STUDENT: We found in World War II that we had to go to a law to conscript labor. They were not giving the performance that we required.

SECRETARY PIKE: Labor and manpower is always a problem when you have mobilization; but I still can't pin your question down to some specific example. Are you acquainted with the types of things we have decided to get out of--that we are waiting on congressional approval for, for instance?

STUDENT: No, sir, I am not.

SECRETARY PIKE: They run to things like typewriter repair shops, caterpillar repair shops, bakers' pan manufacturing plants, coffee roasting plants, and things of that sort, where, after a very careful study, we have concluded with the military departments that there is no prime military interest involved in these activities.

These activities are built up to the point where accumulatively now they are very substantial. They run into several thousand in number, and I have heard various estimates--I won't quote, but they run into lots of money so far as capital investment is concerned.

We don't propose to stop any of our arsenals where research and development work is going on, where it is the only kind of plant in this country where free enterprise has not got into the business of developing weapon systems, and so forth.

I think perhaps if you had a more thorough knowledge of the type of thing we are shooting at, your concern would not be quite so great.

COLONEL SEEDS: Mr. Secretary and Mr. Caputo, on behalf of the College, I wish to thank you very much for a most stimulating morning.

SECRETARY PIKE: Thank you, sir.

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