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RECOMMENDATIONS OF THE HOOVER COMMISSION TASK FORCE ON PROCUREMENT

20 February 1956

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ADMIRAL DEUTERMANN: Good morning. It is probably dangerous to stand out here and not read the facts, but I am going to take a chance.

I am reminded of an old cliche, which everybody probably knows, of the speaker whose name was Jones being introduced as Smith. The introducer went to great length telling the attributes and powers of the speaker and when he was finished, he said that on the side the speaker spent his evenings in his own study and by shuffling papers about he made 10 million dollars in oil in California. That was the last straw. The speaker got up, thanked the introducer, and said, "That's all right, except my name is Jones; it was not I, it was my brother; it was not California, it was Pennsylvania; it was not oil, it was coal; it was not 10 million, it was 10 thousand; he didn't make it, he lost it."

Away back when they were setting up our Government and they were struggling with the Constitution--this being February we have all seen it on television--you remember the trouble they had in arriving at a satisfactory vote on the format of the Constitution. Those were tough days. The world was tough. The people all felt that too much power was being grabbed off by the different departments of Government. There was revision after revision. Time dragged out many months. You remember Thomas Jefferson's appeal:

> "Times are going to be changing throughout the world all the time. We have a young baby here. It is going to grow. We must recognize the need for change. We must seek for perfection, but if we can't arrive at perfection, we must make it as good as we can under the circumstances. We must leave room for improvement. As time goes on, we must change the laws and encourage each succeeding generation to take care of its own problems and put its own house in order."

We have seen the modern version of this in the Hoover Commission. Our speaker today is Mr. George P. F. Smith. You have his biographical sketch. He holds a number of prominent positions in the business world. His present assignment as chairman of the Government

Contracts Committee of the National Association of Manufacturers, I think is well known. He was Vice Chairman of the Task Force on Military Procurement. We of the military know if there is ever a squeak in the organization and we want to know where to put the drop of oil, we go to the Executive Command Office. So Mr. Smith is in a position to help us to see what went on behind the scenes as well as what is recorded in print.

It is a privilege and a pleasure to introduce Mr. George P. F. Smith to the Industrial College. Mr. Smith.

MR. SMITH: General, Admiral, Gentlemen: I am not a speechmaker and customarily I duck any assignment of this sort. However, I felt it was a distinct honor and a privilege to be invited to appear before you today and I do so particularly in the hope that maybe in the work of the Procurement Task Force of the Hoover Commission we might have turned up something which will be of help in effecting a better procurement. While I am not an expert on this subject, nevertheless I do hope that perhaps I can clarify in my talk and perhaps even better in the question and answer period some of the things that we found and some of the recommendations we made.

I am sure that you are familiar with the manner in which the second Commission on Organization of the Executive Branch of the Government, the so-called Hoover Commission, was organized and the task which was assigned to it.

Perhaps, however, it might be well to tell you something about the manner in which the Task Force on Procurement organized and conducted its activities, since it has a considerable bearing upon the recommendations which it made and which will be discussed today.

At the outset, the Hoover Commission did not propose to investigate the broad subject of Procurement. Incidentally, I was asked that question earlier. They set up a task force on subsistence services, limiting its activities entirely to food, clothing, and so on. Later it was felt desirable to go into the broad subject of procurement and early in 1954 a Task Force on Procurement was organized. According to the terms of the statute which created it, the Commission was to go out of existence on 31 May 1955. Knowing, as you do, the complexities and magnitude of the procurement problem, you can well imagine the humility with which we approached the task assigned to us, particularly in the light of the limited time available.

As promptly as possible, we organized a group of able business and professional men. The Task Force itself was made up of Robert W. Wolcott, Chairman of the Board of the Lukens Steel Co.; Ira Mosher, President of Ira Mosher Associates, Inc., and past President of the National Association of Manufacturers; Frank M. Folsom, President of Radio Corporation of America; William T. Golden, Chairman of the Executive Committee of National-United States Radiator Corporation and a Consultant to the Atomic Energy Commission; Horace B. Horton, President of the Chicago Bridge and Iron Company; Carl A. Ilgenfritz, Vice President, United States Steel Corporation; Dr. Mervin J. Kelly, President, Bell Telephone Laboratories; George H. Mead, Chairman of the Board, The Mead Corporation; Frank H. Neely, Chairman of the Board, Rich's Incorporated, and Chairman of the Federal Reserve Bank of Atlanta; Mundy I. Peale, President, Republic Aviation Corporation; Robert Proctor, member of the law firm of Choate, Hall & Stewart; George A. Renard, Executive Secretary-Treasurer of the National Association of Purchasing Agents; Franz Schneider, Consultant for Newmont Mining Corporation; Charles J. Stilwell, Chairman of the Board, Warner & Swasey Company, and myself.

In addition, we created an Advisory Committee consisting of John F. Floberg, of the law firm of Kirkland, Fleming, Green, Martin & Ellis and formerly Assistant Secretary of the Navy for Air; Vincent de P. Goubeau, Vice President of Radio Corporation of America; John C. Houston, Jr., Industrial Consultant and formerly Executive Vice Chairman of the Munitions Board; Earl D. Johnson, Senior Vice President of General Dynamics Corporation and formerly Under Secretary of the Army; Frederick R. Lack, Vice President of Western Electric Company; Joseph L. Miller, Industrial Consultant; and Frederick E. Owens of Republic Aviation Corporation.

In addition to being industrialists of some stature, many of these men had served the Government in some capacity, particularly during World War II and the Korean episode, and had some familiarity with the subject assigned to us. Since many of them could devote only a limited amount of their time to the study we were to make, we assembled a full-time staff of 40 people. About one half of these were civilians, some from industry, some from Government. The others were officers borrowed from the Department of Defense and the Military Departments--all were persons who had familiarity with the particular subject to which they were to be assigned.

Very early in our investigation we decided on two basic premises: First, we did not want a report by a professional staff which would be rubber stamped by the Task Force, but rather one which reflected the experience and abilities of the able men we had persuaded to serve on the Task Force and Advisory Committee. Second, we decided that we would examine the situation from the standpoint of top management to determine what might be done to improve conditions so far as major areas were concerned, feeling that if this were done the minor problems would largely resolve themselves. We also decided that we would avoid superficial criticisms and "horrible examples" since our primary objective was not to crucify but to construct.

We felt that the most effective procurement organization which could be put together would fall far short of being effective unless it was supplied with intelligent and comprehensive information as to requirements. We felt that such requirements could be properly established only if timely and reasonably complete information as to current strategic and logistic planning could be supplied those responsible for the establishment of requirements. Obviously, this meant examining the whole cycle up through the Joint Chiefs of Staff to the National Security Council and, perhaps, even to the Office of the President.

Recognizing the magnitude of the job, we organized the work into several study areas. One was concerned with strategic planning; another with the review and analysis of requirements; another with the process of contracting; another with contract administration; another with coordinated procurement; and another with distribution and inventory control both in this country and abroad.

Each of these groups was headed by one or more members of the Task Force or Advisory Committee, some of whom devoted almost full time to the job. In addition, other members who could devote only a limited amount of time to our activities were assigned as advisers and consulted frequently. A full-time staff was assigned to each project to do the legwork.

In addition to hundreds of visits to installations both in this country and abroad and even more interviews with past and present officials in the Office of the Secretary of Defense and the Military Departments, the Department of State, the Atomic Energy Commission, the National Security Council, the Joint Staff, and others, we circulated a questionnaire on contracting and contract administration problems.

This was sent to approximately 700 Government contractors, including both prime and subcontractors, and large and small contractors. In addition, the three military departments were asked to supply us with the names of some of their top contracting personnel. The same questionnaire was sent to this list with the request that it be returned to us without identification. Surprisingly, and perhaps it is not so surprising, there was a great deal of unanimity in the thinking of contractors and contracting officers on these subjects.

I have gone into considerable detail as to the manner in which we approached the problem. I think it is important since it throws considerable light on the recommendations which are included in our final report. Those recommendations were arrived at only after a great mass of data was examined many times with exceedingly critical eyes. Some of it was cast aside in cases where we felt that we had been unable to make a sufficiently thorough study to justify positive recommendations. In some uncertain cases we were able to recheck sufficiently to support conclusions which had been reached.

I might say, at this point, that I have never enjoyed anything I have done so much as I did this assignment. I came out of it with a far better understanding of the problems which confront procurement officers and a far more wholesome respect for the men, both in and out of uniform, who are responsible for military procurement, than I had before. I wish more men from civilian life could and would take advantage of the opportunity which I was fortunate enough to have had.

Now as to the recommendations which are included in our report. These I will discuss in the order in which they appear in the final report of the Task Force on Procurement. I might add that, of necessity, this report had to be condensed to a point where, perhaps, some of its value may have been impaired. It is backed up, however, by three volumes of staff reports from which it was prepared and which are available in multilith form. These in turn were prepared from a great mass of data, which I am sure none of you will ever wish to read.

(The final report, the Staff reports, and the size of the reports back of them were demonstrated by Mr. Smith as an indication of the magnitude of the editing job alone.)

Recommendation No. 1 concerns itself with the creation, in the Office of the Secretary of Defense, of a new civilian assistant to be responsible for the whole planning and programming area. It is

possible that the office should be that of a Special Deputy, which would require the amendment of the National Security Act. Regardless of the title, we felt that this area was so vitally important that a person of considerable stature and authority should devote full time to it.

It must be obvious that our investigation of the operations of the National Security Council and the Joint Chiefs of Staff had to be somewhat superficial. In such an extremely sensitive area, we could not, nor did we wish to, have access to much of the information which flows through those organizations. We were, however, able to reach certain conclusions which appeared to be supportable.

We recognized that it was impossible for the detailed plans of the JCS to be passed down to every procurement officer. We also recognized the fact that these procurement officers could not perform their tasks properly if all the guidance they had was a statement that we might have to fight a war sometime, someplace, and to get ready for it. This is certainly an oversimplification of the situation, but it is, in some degree, an analysis of what we found. We all know that the JCS is the important body concerned with decisions as to when, where, and how we may find it necessary to fight a war.

Will it be a war of atomic or hydrogen weapons? Will it be one based primarily upon intercontinental ballistic missiles involving atomic or hydrogen warheads? Will these weapons be avoided as has been the case in recent wars so far as gas warfare has been concerned? Will it be an air war, using conventional weapons? Will it be a ground war? Will it be one, primarily, of slow strangulation resulting from a naval blockade? Will it be a combination of two or more of these? Will it be fought in the rice paddies of Indochina, in Northern Africa, or on this Continent? These are some of the questions which must be answered. It is only natural that there have been differences of opinion, particularly when it is considered that the members of the JCS are also the operating heads of the several Military Establishments. Under these circumstances, each member must be the chief advocate for his department. He must also, by virtue of his background and experience, feel that his particular branch of the service is the one which can best bring any war to a successful conclusion. Since these men are human beings, it is difficult to see how they can be expected to be thoroughly objective and nonpartisan. Imagine, for example, the Chief of Staff of one of the military departments recommending that his department be abolished and its appropriations diverted to building up one of the other departments. Furthermore,

the dual responsibilities of these men impose restrictions on the amount of time which they can spend on pure planning, which we felt to be of paramount importance--perhaps of far greater importance than any other phase of the activities of the Department of Defense.

I hope that you will not interpret this as serious criticism of the very able men who make up the JCS and the Joint Staff. Their job is a Herculean one which, perhaps, could not possibly be performed adequately by any group of men. We did feel, however, that it should be reexamined since, if it were not performed, we might find ourselves fighting the next war with weapons at hand rather than the weapons we should have. As you know better than I, this could be fatal.

We felt that strategic and logistic plans could be issued, in light of the changing world situation, more rapidly than they were. We felt that they could be issued in considerably more detail. We felt that these plans and their details could be disclosed to more people in positions of responsibility or, if they could not because it was felt that such people were not completely trustworthy, then these people should be replaced. We felt that there was too much reluctance on the part of civilian officials to question military judgment or to participate in its formulation. We felt that, because of honest differences of opinion on the part of members of the JCS, too much time elapsed before these differences were resolved. We felt that, while this might well be the most important responsibility of the Secretary of Defense, he and his existing deputy had far too many other things to do to devote the time required to planning and programming. This is entirely wrong but it is nevertheless true. These men are required to spend far too much of their time in the political, public relations, and administration aspects of their task to permit them to devote to the planning area the time it deserves and needs.

In view of these facts, we felt that the office which I have mentioned should be created. The person who fills it should be the right hand of the Secretary of Defense in this area. He should be given the responsibility for knowing intimately the thinking and planning of (a) the National Security Council, and (b) the JCS and Joint Staff. He should be certain that, to the degree possible, the Assistant Secretaries of Defense concerned should have sufficient information to enable them to prepare realistic estimates of military requirements and budgets. He should be certain that the several military departments are supplied in a timely and effective manner with the information

necessary to enable them to best perform the missions assigned to them. He should coordinate all of these activities and should certainly bring to the attention of the Secretary of Defense, very promptly, any unresolved differences of opinion so that they may be resolved without undue delay.

Recommendation No. 2 is concerned with the removal of legal and administrative encumbrances upon the placement of military contracts.

We felt that the preference expressed in the Armed Forces Procurement Act of 1947 for advertised rather than negotiated procurement imposed a hardship on contracting officers and prevented them from fully utilizing their abilities. Certainly, advertised bidding has a useful place in the procurement picture, but where so much of the material to be procured is of a special nature, we felt that it was unfortunate to leave the implication that negotiated contracts were suspect.

We felt that forcing the contracting officer to take into consideration the provisions of the Small Business Act, Distressed Labor Areas, and the Buy American Act, among others, was a definite deterrent to effective procurement. Such things as these may serve some useful social purpose. If they do, their cost should not be charged to the defense budget. It is difficult to see how a contracting officer can be criticized on the one hand for paying too high a price while at the same time being criticized for not placing a contract at a higher price in a distressed labor area or with a so-called small rather than a large business institution.

We also felt that considerable improvement could be achieved in the placement of contracts if the several military departments had a better interchange of information and all of them adopted procedures which one of the other departments had demonstrated were effective.

Recommendation No. 3 is concerned with pricing policies, techniques and procedures.

We felt that far too much emphasis was being placed on profit rather than on price. Certainly, no Government contractor should earn exorbitant profits and, in times of emergency procurement, this sometimes happens. Nevertheless, under most circumstances, proper negotiation, the selection of the proper type of contract, repricing and renegotiation, if it is to be continued, could assure adequate

protection to the Government. Furthermore, placing more responsibility on contracting officers and providing more incentive to contractors could well result in lower costs to the Government.

We felt that the audit agencies were, in many cases, usurping the prerogatives of the contracting officers and assuming a major rather than a minor role in procurement. We felt that the whole process would be strengthened if audits were a servicing rather than a policing activity. We felt that the auditing of subcontracts was being carried too far and that this should, in most cases, be a responsibility of the prime contractor. If he could not be relied on to control his subs, then perhaps the wrong prime contractor had been selected. We felt that too much time and effort, in connection with repricing, was expended in determining what was or was not an allowable cost, when a more useful purpose might be served if it were assumed that the contractor knew what was necessary for the satisfactory operation of his business, and the question of proper allocability rather than allowability of costs was more seriously considered.

In short, we felt that the responsibility and authority of contracting officers should be built up rather than torn down. If they are not of sufficient stature and ability to assume this responsibility and authority, and in general we felt they were, then there is something drastically wrong with the whole procurement organization.

Recommendation No. 4 suggests streamlining the complex routines of contract administration.

We felt that far more uniformity could be established in the military departments in connection with inspection and quality control. We felt that 14 different inspection services--7 in the Army, 6 in the Navy, and 1 in the Air Force--needlessly complicated an already complex problem. We felt that scheduling of production should be based on realism rather than wishful thinking. We felt that far too much control over subcontracting was exercised by the military departments. We recognized that there were cases in which this was necessary but felt that, with the proper selection of prime contractors, more reliance could be placed upon their judgment.

We felt that better coordination of activities in the fields of research, applications engineering, maintenance and production would avoid serious mistakes arising out of premature placement of production contracts and would eliminate the need for so many design and

specification changes. We felt that much more reliance could be placed on commercial products in many areas, although recognizing the need for built-in safeguards in some cases. We felt that there should be greater uniformity of drawing standard requirements within the military departments, which would result in considerable savings, and that every possible effort should be made to bring about as much uniformity as possible between military and commercial standards.

We felt that terminations could be handled in a much more expeditious manner. We felt that the subject of record retention needed a thorough going over. We felt that disputes could be handled with a much shorter lapse of time. We felt that the varying labor standards arising out of a mass of legislation, including the Fair Labor Standards Act, the Walsh-Healey Act, the Davis-Bacon Act and the Eight-Hour Law, imposed needless hardship upon both the contracting officer and the contractor. We felt that the mass of regulatory material included in the Armed Services Procurement Regulation and the implementing regulations of the several military departments could be simplified and made much more uniform.

We found many other areas in the field of contract administration such as those concerned with patents, licensing, copyrights, proprietary rights, insurance regulations and the treatment of state and local taxes which needed careful examination but which time did not permit us to study in detail.

Recommendation No. 5 concerns itself with the field of Coordinated Procurement.

In this field we found a considerable variation in the results being achieved. In certain instances, notably petroleum and medical supplies, coordinated purchasing appeared to be producing satisfactory results. In other cases, the reverse was true. In some instances, we felt that the assignment for coordinated procurement had been ill advised to start with. In others, there was evident a lack of cooperation on the part of one or more of the military departments involved and in some there was a lack of proper management.

We felt that much could be gained in some fields through coordinated procurement if it were properly established and operated. We felt that, in order to accomplish this, the Assistant Secretary of Defense (Supply and Logistics) should institute a thorough review of

the existing assignments with the view of rescinding those which were improper, should seek out worthwhile opportunities for further assignments, should conduct a thorough study of how operations were conducted under such assignments so that they could be made more effective and should give more effective attention to the mobilization aspects of coordinated procurement.

Recommendations Nos. 6, 7, 8, 9, 10, and 11 are concerned with Inventory Control and Distribution.

At about the time the Procurement Task Force was organized, the Cooper Committee, which had been set up by the Secretary of Defense to study the fiscal aspects of this subject, was completing its assignment. It had limited its study to the fiscal side of the picture and to this country only. Rather than duplicate this study, we picked up where it left off. Fortunately, we were able to retain many of the people who had made this study for the Cooper Committee. They made further studies in this country and a team of five members spent several months visiting installations in Europe, Africa, and the Far East.

We found that, while constant improvement was being made in this field, it was still being sadly neglected when consideration was given to its importance and the tremendous investment involved. We found wide variations in the policies of the several military departments as to inventory reporting and pricing. We felt that there was great need for the prompt completion of the Federal Cataloging Program and that it should include many local purchase items which are now excluded.

We found many cases where the replenishment of depot stocks was based on issues rather than on usage. Consequently, if a supply officer or a number of such officers overordered a particular item, it resulted not only in excessive inventories at the usage level, but also in overprocurement at the depots. Similarly when a particular item was being phased out, the use of issues rather than usage brought about an excessive inventory of obsolete items.

We found that insufficient attention was being given to the composition and turnover activity of stocks at depots and bases. We felt that a systematic analysis of such data would clearly demonstrate the fact that many items need be carried in stock at only a few central locations and that the quantities of others carried at many of the depots could be drastically reduced.

We found a considerable variation between the ideas of the military departments as to the number of days supply of a particular item to be carried at a wholesale depot. We found a similarly wide variation in establishing the point at which stocks should be declared excess and made available for redistribution.

We found a wide variation as between depots in the time required to process and obtain shipment against replenishment requisitions. Obviously any shortening of this time cycle will bring about a considerable reduction in the tremendous inventories here and abroad and will minimize the dangers of obsolescence. We felt that one of the factors contributing to this situation was that too many echelons in the supply system, particularly when overseas shipments were involved, participated in the screening and editing of such requisitions. We felt that proper traffic management could accomplish a great deal in holding down inventories.

We found that, particularly overseas, there were widely varying degrees of inventory control by the central points over supplies located in operational commands and overseas depots. In some cases we found that operational commands had independently adopted inventory control standards at variance with those prescribed at central points, or were requisitioning materiel on a different basis than that on which the inventory manager had computed his requirements and made purchases. For these reasons, we felt policies should be established to assure uniformity, worldwide, within each department.

In some areas overseas, we found serious personnel problems. There is little appeal to United States civilians in some of these jobs and the local labor market is inadequate because of language barriers, illiteracy, or restrictive local conditions. Consequently, with many of our depots and bases overseas requiring substantial numbers of people, agreements should be entered into with local governments which will permit of the recruiting and training of such people.

Recommendations Nos. 12, 13, 14, and 15 deal with a program for building more forceful and informed leadership over military procurement.

As has been mentioned earlier in this statement, we found roadblocks being thrown in the way of the contracting officer. We found his authority being seriously impinged upon. We found an almost complete lack of encouragement for initiative on his part. We found,

on the part of many contracting officers, a constant fear of criticism from within their own agencies, from the General Accounting Office, and from Congressional Committees.

In industry a purchasing agent in a comparable position will make mistakes. His worth is measured by the ratio of the number of mistakes to the number of good decisions he makes. If that ratio is sufficiently low, he is accounted a success. Not so, however, in the military departments. Here, there is so much furore over one mistake, particularly if it comes to the attention of the GAO or a Congressional Committee, that the career of the officer involved may be ruined. The wonder is that these men are willing to make any decisions and that they function as efficiently as they do.

Recommendation No. 12, therefore, directs the Assistant Secretary of Defense (Supply and Logistics) to adopt policies designed to strengthen the position of the contracting officer.

Obviously, one of the most urgent requirements, if we are to have satisfactory procurement, is that there be available adequate and properly trained personnel, both military and civilian. Although we ran into this constantly, we made no serious study of the problem since two other Hoover Commission groups were devoting their attention to it. We felt, however, that it was, perhaps, the most important single problem at the procurement level and included Recommendation No. 13 to lend support to the other groups.

We found that the Assistant Secretary of Defense (Supply and Logistics) and his counterparts in the military departments met informally and occasionally for policy discussions. We felt that such meetings had achieved worthwhile results and that a policy body of this sort should be formalized. We, therefore, urged this in Recommendation No. 14.

Although recognizing the fact that the "bull in a china shop" approach could do more harm than good and that the office of the Assistant Secretary of Defense (Supply and Logistics) had achieved and was achieving worthwhile results through close cooperation with other agencies, we felt that the approach was often too passive and that a more aggressive approach was necessary if this tremendous job was to be done without undue loss of valuable time. This belief was incorporated into Recommendation No. 15.

This covers the area in which we felt recommendations should be made. Obviously, the report of the Task Force and the statement I have made today oversimplifies, perhaps dangerously so, a very complex problem or series of problems. Certain of our recommendations appear to say that there is a problem and something should be done about it. We felt that in many cases that should be sufficient, that the voluminous staff material behind our report adequately pointed up the problem and the details of the solution; that the steps to be taken to bring it about should be left to the judgment of the responsible official rather than dictated to him.

In closing, I would like to mention three things specifically which I have touched on earlier. As you have probably noted in your minds, we appear to disagree with General Ridgeway in that we believe there is too little top civilian participation in military decisions. Certainly, the General should have been in a better position to judge that than we were. In the instance with which he deals, there was apparently a long standing disagreement between his viewpoint and that of his colleagues on the JCS. Without knowing the details, we knew that there was disagreement which had prevented for a long time--too long, we thought--the promulgation of plans for the guidance of the military departments. It seems to me that someone, and of course it was the job of the Secretary of Defense, had to force a decision in this case.

Secondly, since we prepared our report, a Congressional Committee has again commenced to belabor the idea that there is something dishonest about negotiated bidding and that only procurement by advertising is sound. I submit that the reverse is almost universally true in the type of procurement in which we are involved. Just how any of us can exercise any great degree of control over Congressional Committees, I do not know, but we should certainly attempt to educate them on this point.

Third, there has been a recent indication that Congress was about to bring pressure to bear on the Secretary of Defense to force greater unification of the supply systems of the several departments. I think the single-manager plan is perhaps an answer to that but I am not sure. It is true that one of the Hoover Commission Task Forces recommended that in certain areas unification was desirable. The Procurement Task Force was not in agreement with this viewpoint. We felt that, if proper steps were taken to correct weaknesses and to bring about greater uniformity in policies, any movement towards a fourth service of supply was not only unnecessary, but undesirable. I am afraid,

however, that unless the several military departments subordinate interservice rivalries and cooperate among themselves, as they appear to be able to do in so many instances, a movement toward a fourth service of supply by political pressure might grow to a point where it would become dangerous.

Gentlemen, I have enjoyed the opportunity of appearing before you. I am an expert on none of the subjects I have attempted to cover. In connection with some of them, I am a rank amateur. However, to the degree that I can, I will try to answer any questions you may have.

Thank you.

COLONEL CROKER: Mr. Smith is ready for your questions.

MR. SMITH: Colonel Croker, could I say a few things before we go into that, arising out of the discussion during the break?

I was asked how it happened that the report of the Task Force on Procurement was handled in a different manner than that of other Task Forces. As you probably know, the report stood by itself. In other cases, the Hoover Commission wrote its own report, going along with the individual Task Force and perhaps dropping some of their recommendations. In our case, we got started on this job rather late. It was too big a job to attempt to hurry, so we took all the time we possibly had, so much so that it got down to the deadline where the Commission's life was about to go out by statute. At that point we submitted our report.

It was felt that the Commission itself did not have sufficient time to do the thoroughgoing job it had done on other reports. It had also set up a Committee on Business Organization in the Department of Defense, under Charlie Hook, which was making a report. Some of the aspects of our report fitted into that, so certain of our recommendations were lifted bodily from our report and put into the Hook Committee Report.

I do not know this to be a fact, but there were two other considerations which may have had something to do with the situation. In the first place, those of you who have read the Procurement Task Force Report will notice the complete lack of horrible examples, which was not, unfortunately in my judgment, true of other Task Force Reports. There were no questions raised concerning 60 years of

hamburger supply, or things of that sort. That approach was rather unpopular with certain people in the Commission and may have had something to do with the fact that our report appeared to be sloughed off.

In addition to that--I touched on this briefly earlier--we felt very definitely that a fourth service of supply was not the answer. We considered it very carefully. We felt that the procurement job, particularly if we get into another war, was of such magnitude that a fourth service would break down. We did not feel that we were competent to say definitely that there should not be a fourth service, but we certainly did not feel that there should be. Therefore, we included in our report a statement that, among other things, we had considered a fourth service of supply and had come to the conclusion that, until things which could be done within the present existing organization had been tried and proven unsuccessful, consideration should not be given to a fourth service of supply. That was at variance with the report of another Task Force and we were asked, since we were making no recommendation on that subject, to delete it from our report, which we did, I think unwisely. Those two things may have had some bearing.

So far as I know, officially the report was not dealt with by the Commission because of the time limitation, but Mr. Hoover did write a foreword urging that it be given full consideration by all those concerned.

QUESTION: You may have touched lightly on the question I was going to ask. I am curious about the coordination within the Hoover Commission of the several reports. Yours tends to set aside procurement and give it very special treatment and emphasis because of its apparent importance, where other Hoover Commission groups suggest loading up the Supply and Logistics with two other offices. Was there any attempt to coordinate the various groups?

MR. SMITH: Well, there was some coordination between the various groups comprising the Hoover Commission, unfortunately not to the extent it could have been and should have been done. We attempted to keep other Task Forces informed as to any of our findings which hit into their areas. Personnel, for example; when we found anything we thought needed correction, we referred it to the two groups dealing directly with that. Other groups did not do that.

Furthermore, so far as individual Task Forces were concerned, each of us had his own individual opinion, as we did on the fourth service, honest differences of opinion. The Commission was supposed to resolve those differences, but it was understood when the Task Forces were set up that the Task Force Reports themselves would not be changed in the Commission's Report. If they found that one Task Force was recommending a fourth service and another was decrying it, their report would go with one or the other and delete the opposing viewpoint, but the Task Force Reports themselves were not changed. Consequently, you will find varying viewpoints in several of them.

QUESTION: You have touched upon this very briefly, but could you say a few words more on why your Task Force didn't recommend the fourth service of supply? And, secondly, some people feel that the tendency to get into the single-manager use is a way of backing into a fourth service, could you comment on it, please?

MR. SMITH: First of all, we did not make any recommendation on a fourth service because we felt we had inadequate time to really seriously consider anything as far reaching as that. We felt, as I said before, that it was not the answer, at least not the immediate answer. We felt that the problem was too large to handle in that fashion. After all, industry has a very great tendency toward decentralization. We do it in my corporation to a degree that is beyond even General Motors. But here you have a problem, an area much larger than even General Motors and you are talking about centralizing this instead of doing what industry feels is necessary--decentralizing with proper authority. So on the face of it, we felt it was not the answer. We did not feel, however, that we had sufficient experience or had gone into it deeply enough to say definitely that it should not be done.

What was the second question?

QUESTION: Certain people feel that the extended use of the single-manager concept is backing into a fourth service of supply.

MR. SMITH: I think maybe to some degree they are right, although, as I said out in the hall to several gentlemen, I think the fourth service of supply is to some degree a political thing and I am not at all sure the top officials in the Department of Defense want it.

I think the single-manager plan is perhaps an answer on their part to avoid a concerted push toward the fourth service. After all, had coordinated procurement been operated properly, there might not be the necessity for a single-manager plan. All I can say is that the political implications are dangerous and if I were responsible for the supply functions in any one of the military departments, I would do everything I possibly could to make the single-manager plan work, or you may find something much worse than that.

QUESTION: If you had to name the one single thing that you think is the greatest deficiency in our procurement setup, what would you latch onto?

MR. SMITH: I would say the thing we covered in our No. 1 recommendation, the lack of proper guidance. I think the planning area has been extremely weak. I think there has been too much of a tendency on the part of the JCS to consider that they could not give sufficient information to anyone outside that sacred group to enable him to do a job. It has been a question almost, as I stated in my remarks, of saying we are likely to have a war sometime; better get ready for it. I don't see how any procurement organization can function under those circumstances, and certainly when there is a difference of opinion, as there has been, among the JCS as to what type of war it is going to be and what weapons will be necessary. Certainly they cannot pass down to every contracting officer intimate knowledge of their strategic plans, but it should be possible to pass down enough information to properly carry out procurement, and I don't think that has been done. I think it is the No. 1 problem.

COLONEL CROKER: I would like to follow that point up just a little. Mr. Golden differed with the Task Force somewhat in this area. I wonder if you would care to comment or provide a little background as to just what led him to do that?

MR. SMITH: That I don't know. Bill Golden has been, as you know, mixed up in things in Washington. I think his major variance arose out of the fact that he felt we had insufficient knowledge of the work of the Joint Chiefs of Staff, and that is admittedly so. Bill's theory was that we should recommend that the Secretary of Defense or the President set up a small body of perhaps three men of the stature of Bob Lovett to make a thoroughgoing investigation of the JCS to see how they arrived at their decisions and see how they processed their differences of opinion. I think maybe some good might come of that, but I still think that the recommendation we came up with is a sound one.

In effect, there we are doing the same thing, only we are doing it with one man of official rather than semiofficial status, and you might very well arrive at the same conclusions. In this case an individual might even legislate or recommend himself out of a job. But there was not any serious difference, except Golden felt we hadn't gone far enough into the matter and should recommend that it be done.

QUESTION: To what extent do you feel business principles are actually applicable to military procurement. In the determining of sound principles, what is the best way to go about it? We have a sort of artificial situation and you can't add it up with profit and loss, and so forth.

MR. SMITH: I think good sound business principles are applicable to a very considerable degree. I think there are qualifications there. For example, certainly the procuring department should, to the greatest degree possible, utilize standard commercial articles rather than go into special designs. On the other hand, there are certainly areas where you must build in special safeguards in equipment on which a man's life depends. Maybe a standard commercial article isn't acceptable. You have got to have something with longer life, more assurance.

Another situation is that you are dealing with public funds and that to some extent makes it necessary to do things that you wouldn't do in industry. However, in industry we have much the same situation. Decisions we make don't involve our own dollars; they involve the dollars of our stockholders. So we have that same condition to a lesser degree. We are not subject to congressional investigation. I think perhaps that is the thing that differentiates military procurement from civilian or industrial activities more than any single thing.

In our case, if any one of our executives does a bad job he is fired. In the case of the military departments, he is investigated by Congress; his career is affected; but far beyond that, it goes right up to the top, and the Secretary of the Military Department, the Secretary of Defense, and everyone else is crucified. So I think you do have a slightly different situation, but certainly the principles that guide industry are sound for military procurement.

QUESTION: I get the implication from your report and from your lecture that you wish to place in the hands of the procurement officer such strategic plans as to permit him to challenge the people who determine the requirements. Is that the case?

MR. SMITH: No. I think that there has to be sufficient knowledge of strategic plans placed in the hands certainly of the people in the Department of Defense and probably in the several military departments who have to do with requirements to enable them to set up realistic requirements, and that has not been the case. It is a rather serious indictment, but I think, almost two years ago when I first came down to Washington, in my first session with members of the Joint Staff, I was told rather apologetically that they had intended to get out a midrange plan in February. It had not yet been promulgated but they were pretty much in agreement on it and it would be out very shortly. That was around May or possibly June. I have forgotten now when it came out, but I think it was early last year. But I don't see how anybody--at that time it was Bob Lanphier's job--under those circumstances can set up realistic and proper requirements.

My point and our point in the Task Force Report is that some war plans, even though they are not perfect, must be gotten out promptly and in sufficient detail so that if it is a top secret matter only maybe one person in OSD and one in each of the military departments has any real knowledge concerning those plans, but they should have sufficient knowledge to be able to set up realistic requirements.

QUESTION: You said in your formal remarks that it would be highly desirable to increase the scope and authority of the procurement officer in the military. You also stated that the legislative hurdles these officers have to leap, such as "Buy-American Ace," "Depressed Labor Area Act," and so forth and so on, make this virtually impossible. This would indicate that a lot of the responsibility for increasing the scope and authority of such officers lies in congressional hands rather than in the Executive.

MR. SMITH: Yes, very definitely. I think to some degree it lies within the power of the military departments or certainly in the Department of Defense. I don't know whether there are any people here from Mr. McNeil's office or the comparable offices in the military departments, but if there are, they won't like me for this. But, as I stated, we feel that auditing should be a servicing rather than a policing activity. In some cases, the auditor is breathing down the neck of the contracting officer. We think that's wrong. That can be corrected within the military structure, but certainly it needs correction at congressional levels, too.

I might say that I have served for a year and a half on the Procurement-Production Industry Advisory Committee set up by Mr. Pike's office. I attended a meeting of that committee last week, at which they made a report on what had been done and was being done to implement our recommendations, and I was very agreeably surprised to find out that there appeared to be concurrence on most of them. The question of auditing hadn't been completely resolved and they were taking steps to do something about it. But in every instance where repeal of legislation was concerned, they said, "That's outside the scope of our activity," and I thoroughly agree with them. Certainly, if I were Tom Pike, or anybody else in a similar position, I would not urge the repeal of the Walsh-Healy Act, for example. It would be political dynamite. Nevertheless, I think it should be repealed. But that is something for perhaps a body like the Citizen's Committee for the Hoover Report to urge. I am sure that the military departments will support such recommendations once they are made, but it has to be done outside the military departments. I agree.

QUESTION: My question deals with the standard commercial items. Now I certainly realize that we go all the way across the spectrum from a tank to a pencil, but the thing I am particularly interested in is construction equipment. We find that one of our troubles is that there is no standard commercial item, or a lack of standardization within commercial products. Now, of course, that is breaking our backs on maintenance, repairs, and so on, as you well know. Is there anything that industry can do that it is not doing at the present time to standardize within that category of standard commercial items?

MR. SMITH: Industry can do a hell of a lot it hasn't done and isn't doing. I hope I haven't given the impression that this is a one-way street, that industry is perfect and the military departments are not. I certainly did not intend to.

Take the question of drawing standards. We urge the military departments to adopt uniform drawing standards. Industry hasn't, although it is making some progress in this area. We urged that positive effort be made to use standard commercial items. I don't know enough about the construction industry to know the problem there, but perhaps in other areas the Federal Cataloging Program will accomplish a lot in that direction.

Whether it can be applied to construction materials, I don't know. But I think in the final analysis, it is a question of education, a question

of the weight of the procurement. If procurement of construction materials is large, as I am sure it is, it seems to me that the Government could almost force more standardization than exists today. There is no easy way to do it.

QUESTION: Do you feel that the action taken so far by the Department of Defense has been sufficiently responsive to your recommendations to make you feel you have done a good job or have made recommendations that will help?

MR. SMITH: I don't feel we have done a good job. We did the best job we could within our limited talents and limited time. But I am extremely happy with the results that appear to have been achieved so far with our recommendations. I have had several sessions, since I wound up my activities, with Mr. Coolidge, who was appointed Special Assistant to the Secretary of Defense to implement the Hoover Commission's recommendations and who has now been replaced; with Mr. McNeil, the Assistant Secretary (Comptroller); Mr. Pike, and others; and in every case I found a very cooperative attitude, a feeling that there is some merit in these recommendations and we should do something about them.

On the really No. 1 recommendation for the appointment of a Special Deputy, there is disagreement, but even there I was told last week of steps which are being taken in OSD to eliminate some of the problems we found in that area. The passage of information, for example, from the JCS to the Office of Review and Analysis is very much better today than it was when we made this investigation. Whether the steps they are taking will solve the problem, I don't know. They will certainly help. But, as a result of our recommendations, we have had some things done that I believe will lead to a desirable result.

QUESTION: Getting back to this coordinated procurement field again, it appears that in the medical and POL fields joint procurement is very satisfactory, at least as far as the services are concerned and apparently as far as the Hoover Commission and the Congress are concerned. Those two fields have one thing in common, that is they have a standard list of items fully catalogued. In your Task Force investigations, did you look into the field of standardization and cataloguing, and isn't this, as I believe, one of the main prerequisites for good coordinated procurement, a standard and catalogued list of items?

MR. SMITH: I think it is one of the most important considerations. Actually, we looked at a lot of coordinated procurement assignments--petroleum, medical supplies, and certain others, but those appeared to be working satisfactorily. I say "appeared" because there was no way of measuring whether you were effecting any economies there or not. It looked as though they should effect some economies.

One thing we never could understand and there was no opportunity to examine it, but we couldn't see why the setup that was made on clothing hadn't worked, but apparently it hadn't and Congress legislated it out of existence after having pretty much insisted that it be set up. Whether it ever had a chance to work, I don't know. Maybe the services pulled and hauled on that--and I am sure you gentlemen know that does go on sometimes.

I think coordinated procurement could be made to work to a degree beyond anything that was accomplished with proper cooperation between the utilizing departments. In the case of petroleum and medical supplies, that situation appeared to exist, where in others it didn't. But I do think that cataloguing and standardization would help it tremendously.

QUESTION: I don't recall in your own comments any statements with regard to the degree of civilianization or militarization in our procurement manning. Some of the Hoover Commission Subcommittees and Task Forces apparently felt we should have more civilians or more strength on the civilian side in procurement.

MR. SMITH: Well, I did not comment on that at any length because, although we ran into those personnel problems, there were two Hoover Commission Task Force groups who were making an intimate study of them so we bypassed that pretty much, except for pointing out to them problems which we felt existed.

Personally, I think there is a lot too much duplication in the supply system, an officer and a civilian where either one could do the job, but that is purely a superficial opinion since we made no study of it.

COLONEL CROKER: Mr. Smith, you seem to have answered all our questions. On behalf of all of us here at the College, I would like to thank you for a splendid and forthright presentation.

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