THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (S&L)

Honorable E. Perkins McGuire

NOTICE

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Reviewed by: Colonel Thomas C. Keach, USAF

Date: 12 January 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

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Reporter: Grace R. O'Toole

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GENERAL HOUSEMAN: Business within the military department is of prime importance to us all, and the Office of the Assistant Secretary of Defense for Supply and Logistics is one of the key offices or key segments of the military and the Government which deal with business and with us.

We at the College speak their language and they speak ours. We have a camaraderie as a word. We have a very close tie-in with that office.

We have had in the past several speakers offered to us from there. They are going to furnish four for the Materiel Management Course, and you are already acquainted with the fact that Mr. Ray Clarke from that office has been over here to talk to you students.

It is most appropriate now, when we are starting the Materiel Management Course, to have as our first guest speaker the gentleman who is really in charge of that office. The Honorable Mr. Perkins McGuire has been a speaker here before. This is his fifth trip to the College.

We are most happy to have the Honorable Perkins McGuire, Assistant Secretary of Defense for Supply and Logistics. Mr. McGuire.

MR. McGUIRE: General Houseman, Admiral Patrick, Members and Students of the College: I might add that, when General Houseman reminded me that I had been here five years running, I asked him when I was to get my honorary degree. Apparently I have not qualified for that, so I must be deficient in my performance, because I feel that this institution is one of the most valued elements of our logistics structure. I look forward each year to the opportunity of meeting with you and discussing some of the highlights of our current logistics program. This exposure, of course, should be mutually helpful.

But these visits each year are helpful to me for another reason. Each year, when I prepare to address this class, I find myself going through what I call a little private "agonizing reappraisal." Since my subject is always the same, I begin by looking back over the past year to see what I have really accomplished. Once in a while this induces what might be described as a mild state of shock. Sometimes in the past I have found that a problem we were about to solve last year we are still about to solve this year. I have a few of those to discuss with you later. Not infrequently I find that our progress from one year to the next is not what I hoped for or expected.

Fortunately, this year--at least my staff tells me so--while I am still not completely satisfied with our accomplishments, I am encouraged by the knowledge that we have made what I consider to be important decisions on some of the problems that have been, frankly, unsolved for much too

long a time. We have made some definite and positive advances in important programs, and we have, I think, gone a long way toward harmonizing the logistical efforts of the three departments into a cooperative program directed toward mutually agreed-upon objectives.

At this College, where benefits from the knowledge and experience of fellow students and faculty are encouraged to be freely exchanged, you are afforded a great opportunity to add breadth to your scope of understanding of national policy. I hope that you will take this opportunity to develop objectivity in your consideration of national defense problems.

It is important, of course, to discard preconceived ideas and to examine our country's future in terms of the broadest national interests. We must develop officers who will return to their services with the same degree of objectivity which is required of you here at this College and who can seek solutions to problems which will permit us to get the greatest defense for our dollars.

Objectivity is required not only because our country's security demands it but also because it is an important factor in your individual career advancement.

As you know, President Eisenhower has instituted a personnel procedure for top-ranking officers which provides that, before an officer is advanced beyond the two-star level, he must demonstrate, among other qualities, the capacity for dealing objectively with matters of the broadest

significance to our national security.

I trust that each of you will put this year at the College to good use, and that you will not set your feet into concrete on preconceived ideas. As President Eisenhower has said, "We must free ourselves of emotional attachments to service systems of an era that is no more."

National security is no longer the exclusive concern of the strategist and the tactician. Logistics implications are now an integral part of the formulation of military strategy. The art, or science, of logistics must be furthered if we are to attain the degree of maturity which will permit us to manage our resources most effectively.

Logisticians have a special challenge to meet today. Modern weapons and equipments are more complex and costly. The average jet engine today costs more than the entire plane of a prior era. Modern armed forces require special mobility. Tomorrow, our jet transport may be as obsolete as Hannibal's lumbering elephants. Time and space have been compressed. No longer do we measure the range of projectiles in yards, like the artillery men of old, or even in miles. Now it's in thousands of miles!

The changes required to keep abreast of modern scientific breakthroughs are frequently drastic and challenging. We had many thousands of years to develop the logistics of quivers for bows and improved fabrication of arrow shafts and arrowheads.

We had many hundreds of years to exploit the logistics of the

packaging and transporting of ammunition.

We had a very few years to work on the logistics of atomic and hydrogen weapons.

We have had even less time to prepare the logistics of the intercontinental ballistic missile.

New weapon systems, faster modes of transportation, instantaneous communications--all of these--demand new logistics concepts. Our challenge is to develop new ideas for the control and management of resources necessary to support our national security posture.

This entails reviewing and discarding traditional concepts wherever necessary. It entails the search for practical ways of streamlining operations and cutting costs. It requires the development of a sound logistics doctrine which will insure the support of a military force which may be called upon to fight the most varied types of wars.

We must learn to avoid costly mistakes which deprive us of resources for defense readiness. And we must strive to stretch the dollar to get maximum defense.

Remember that defense costs today are tremendous. Our military equipments require huge outlays of money--huge because of the growing complexity of our modern equipments.

In providing for unification, the Congress directed the Secretary of Defense to pay particular attention to the area of logistics management. Among others, he was required to coordinate the procurement, production,

and distribution plans of the Department of Defense to determine relative priorities of the various segments of the military procurement programs and to review military requirements.

How to do this effectively has been a major problem in an organization as big and as complex as the Department of Defense. Yet the American people and the Congress, from the very early days of unification, have persistently expressed impatience with the rate of unification, particularly in the logistics field. From public bodies, such as the Hoover Commission, and through private groups, such as The National Association of Manufacturers, have come persistent demands for more tangible evidence of unification in the area of logistics.

It is clearly understandable to me why these demands have occurred with increasing emphasis. Our military supply systems today have an inventory value of over $47 billion, not counting capital equipment, such as planes and ships. Supplies are provided through approximately 2700 military installations, depots, and facilities, world-wide. This vast complex network is an obvious area in which to seek greater economy and better integration.

Criticism has led to demands for radical changes in our philosophy, our methods, and, most strongly, in our system. No doubt the critics act in good faith, driven by a genuine desire to improve, but unfortunately their recommendations frequently fail to recognize the tremendous problems which would be created by implementation of many of the broad,

and often vague, recommendations that have been advanced.

The criticisms generally allege that there is unnecessary duplication of inventories, facilities, and services; that we do not make the best use of our assets; and that there is competition among the Armed Forces for the resources of our country and an unhealthy impact upon our economy.

Congressional committees continue to look into every phase of our operations. Impatient with the rate of unification, legislation is introduced regularly to establish a fourth service of supply, a concept never clearly defined and often not well thought out, but it nevertheless seems to generate popular appeal.

From one of the proposals for a fourth service a measure was passed, known as the O'Mahoney Amendment to the Appropriations Act of 1953. This permanent legislation expressed the need for an integrated supply system directed to meet the requirements of the military departments without duplication or overlapping of operations or functions. It directed that no funds should be obligated for procurement, production, warehousing, distribution, or related supply management functions, except in accordance with the regulations issued by the Secretary of Defense.

A subsequent proposal by Senator O'Mahoney would have directed the President to submit recommendations to the Congress for a civilian-manned agency responsible for supply management of common items. This followed soon after a proposal by the second Hoover Commission to create a separate civilian-managed agency, reporting to the Secretary of Defense,

to administer common supply and service activities.

As you know, President Eisenhower, in studying the need for modernization of the Defense Establishment, established the following objectives which are worth while repeating:

" First--The safety and solvency of our Nation require prompt revision of certain aspects of the Defense Establishment to bring it into accord with the necessities of our time.

"Second--Onrushing technological advances in weapons and other devices of war demand that our defense organization have a posture ready to react unerringly and instantly to sudden attack.

"Third--The unprecedented costs of maintaining in peacetime a massive defense establishment demand the utmost economy and efficiency in all of its operations."

The President set as our goal the attainment of maximum strength at minimum cost. The President's reorganization was based on the recognition that a massive defense establishment demands the utmost economy and efficiency in all of its operations, and that "peaceful preparatory and organizational activity must be completely unified." He stated that in the area of logistics the so-called separately administered concept, as well as needless confusion over roles and missions, impeded the accomplishment of increased efficiency and economy in logistics support.

After considerable debate, as you know, on the proposed reorganization plan of the President, the Reorganization Act of 1958 was passed.

It specifically provides that "The Secretary of Defense shall take appropriate steps (including the transfer, reassignment, abolition, and consolidation of functions) to provide in the Department of Defense for more effective, efficient, and economical administration and operation, and to eliminate duplication."

Furthermore, in the logistics field, the new legislation strengthened the authority of the Secretary of Defense, and provides that he may, whenever he deems it advantageous to the Government, assign to a single agency or such other organizational entities as he deems appropriate responsibility for carrying out any supply or service activity common to more than one military department.

Now, why do I stress these developments? It is because I want to remind you of the climate in which we logisticians are operating, and the requirements placed upon us. As public servants--and I include the military in that category--dedicated to assuring maximum national security, we must find the answers to the logistics problems posed by the requirements for national security.

If we do not find the answer to problems in our own field, we may be given the answer by Congress. It would seem to me that this would be a reflection on our capabilities.

We will agree, I'm sure, that unification requires bringing the Armed Forces into an integrated pattern to promote greater military efficiency and economy of operations. We know that in this modern era national

security is a combined responsibility impinging upon all of the armed services. We cannot predict a single arrangement which will provide us with maximum national security. The best results can be obtained only if we make possible an integrated pattern of operation, an operation which would permit us to face any probable eventuality. This entails molding our military forces into a team which can strike in whatever combination may be required.

To support such a team we must have properly coordinated logistics operations, and our logistics planning must be aimed at achieving a high standard of efficiency and economy across the board in the Department of Defense.

The job of developing policy for our defense logistics systems rests with my office. This obviously cannot be accomplished unilaterally but requires the collaborative efforts of the military departments and the Joint Chiefs of Staff.

Our supply and logistics organization consists of nine major directorates:

Planning and Requirements

Procurement

Production

Supply Management

Telecommunications

Transportation

Petroleum

Maintenance, and

Small Business.

We are a policy-making organization. We do not get into operations but we are concerned with formulating policy and insuring that it is properly implemented.

How do we arrive at this policy? We do so through a coordinated effort with the military departments, and we seek advice and assistance in industry wherever practical. I meet weekly with the materiel secretaries of the military departments in order to consider common problems and to consult with them in the formulation of logistics policies.

In order to carry out our responsibilities and to confine ourselves to the policy level, we try to resolve differences as quickly as possible, using a common-sense approach. All of us have a responsibility for seeing to it that accurate information is provided to permit us to make sound decisions. Neither the military services nor OSD can afford to spend needless time searching out information and engaging in long discussions on minor differences. All of us must assume responsibility for avoiding this type of thing.

Every organization must solve its day-to-day problems, and my office must do its share of fighting daily fires.

For the purposes of discussion this morning, I would like to illustrate four very broad objectives which we have set for ourselves in the field of

logistics management:

1. To assist in the improvement practices within the military supply sysbem.
2. To develop selected programs to insure effectiveness and economy.
3. To improve the mobilization planning and readiness of the services, including the protection of facilities and materials under attack conditions.
4. To develop ways and means for achieving greater integration among the military supply systems.

I would like to briefly illustrate each of these objectives.

In the area of improving management practices, in building a foundation for greater efficiency, we have completed the Federal Catalog System. This gives us for the first time in our history a common identification language for all of our supply systems worldwide:

A single classification

A single name

A single description, and

A single stock number for each of the 3,400,000 different items. This job has been completed.

In addition, about a year ago, we finished the job of converting all of our supply records, catalogs, and stock lists to this new system worldwide.

We are currently about two-thirds through coding each of these items to show how each service manages the item; that is, whether it is standard or non-standard, centrally stocked, locally procured, being discontinued, and so forth. About 27 different management codes are being applied to these items so that we will have a central record for the first time of each item, who manages it, and how they propose to manage it.

I am sure you appreciate the value of such a management tool. This takes a further significance in that the NATO nations have adopted this catalog system, and recently several of the state governments have done likewise.

Now that we know what we have, our standardization program becomes increasingly important. We are currently subjecting about 1-1/2 million of our items to a short-cut standardization program which we call the accelerated item reduction or "AIR" program. Here we are simplifying all the items we can through common-sense decisions, leaving to our long-range standardization program the design and engineering decisions which can further reduce the supply system range and improve performance and quality.

With the accelerated item reduction program approximately one-third completed, we have already eliminated approximately 200,000 items listed in the catalog system. About 80 percent of these eliminations were catalog reduction. In other words, we had them in the catalog

system as a listing, but we actually were not carrying them in stock. About 20 percent actually affect inventory.

In one area of 14,000 housekeeping items, we were able to reduce 68 percent of the items. This program is scheduled for completion in December 1961.

Aside from the fact that we are really purging our system on this basis, we estimate that to carry an item in the military system costs a thousand dollars per item. I am talking now about the bookkeeping and the reporting procedures on it.

In our quality control program we have established policies and procedures which are designed to insure uniform practices in determining the acceptability of supplies and equipment. All of these accent the salient importance of prevention of defectiveness.

Everyone who reads the newspapers is aware of the tremendous problem we face in developing and building equipment, particularly missiles and aircraft that satisfy the reliability needs of the Army, Navy, and Air Force. Each of the parts that collectively make up missiles must be practically perfect if a missile is to operate satisfactorily. This consideration has at least one far-reaching implication, namely, that mass-production techniques are frequently not satisfactory for the fabrication of critical missile components.

Painstaking attention to detail is the first prerequisite for a successful missile-production program. Accordingly, the present battle

for weapon superiority is being fought by a comparatively small army of specialists--scientists and craftsmen. In this arena of competition we have no reason to be complacent or to assume superiority. From the logistics point of view, our basic approach to assuring reliability is to accent contractors' responsibility for maintaining an overall quality control system.

This year the Department of Defense published a specification defining the essential elements of such a quality control system. This specification has been adopted and is being implemented uniformly by all the services involved. Those of you who are acquainted with quality control will recognize this as a major advancement in interservice cooperation.

It has taken several years to arrive at a common interdepartmental understanding in quality control, not only among the services but also between the services and industry.

Incidentally, it might be well to mention here that, while there are numerous and honest differences among the services, there are no fewer and no less, I believe, extensive differences among various areas of industry. Frequently the problem of OSD is the two-barreled one of bringing together the military departments and simultaneously reconciling differences among various industrial groups.

We have a concentrated effort under way to improve and extend the employment of logistics research. This activity has three fundamental

objectives:

First, to insure that logistics research is being conducted in profitable fields and that there is a minimum of overlap between logistics research projects.

Second, to cause the widest possible dissemination and interchange of logistics research activities undertaken; and,

Finally, to assure that the results of profitable research are applied to our logistics system in an intelligent and effective manner.

Mr. Brodsky will be speaking to you regarding this program next month.

In the area of our second objective--to develop selected programs to insure effectiveness and economy--we have also taken what I believe to be considerable action.

As an example, one of our programs is directed to the review of terminal facilities. Joint working groups, composed of OSD, Army, and Navy representatives, have studied several of these facilities. Based on group findings, one terminal facility in the New York Harbor area has been declared surplus. In San Francisco, separate Army/Navy refrigerated terminal operations have been consolidated at the Army Terminal. Further, terminals in Hawaii are also under study.

Another project related to this broad objective concerns the establishment of a comprehensive set of contract cost principles for use by contracting officers throughout the Department of Defense when the

consideration of cost is necessary to establish fair and reasonable prices.

We have been working on this important project for some time. As a matter of fact, they have been working on this for about five years, which is more than some time. The new cost principles were finally published last month in a revision of the Armed Services Procurement Regulations. I presume that some of your industry speakers may have a good deal to say to you about this subject.

The development of this new regulation has been the most difficult problem which we have faced in the procurement field. The obtaining of agreement within the Department of Defense took some time because of the strongly held views of the many parties. Several committees of the Congress, as well as the General Accounting Office, have evidenced continuing interest in this project, and their views necessarily were considered.

In view of the practical effect of this particular regulation on American industry, we have had extensive discussions with industry on this subject. In fact, I think we leaned over backwards again and again to listen to and to evaluate the views of industry.

Generally speaking, industry argued for the allowance of all normal costs of doing business, and they specifically objected to the listing of any cost element as being unallowable per se.

We, of course, felt that a number of costs should not be chargeable to government contracts, for reasons of public policy, or because any

such allowance would lead to obvious abuses. For example, we did not feel that costs of entertainment, contributions or donations, interest, and product or institutional advertising should be allowed. One of these subjects has been quite prominent in the papers recently.

The new regulation provides a single comprehensive set of cost principles which will give more detailed and precise policy guidance in treating cost elements. They apply to all types of contracting or contract-settlement situations.

The new feature of the regulation is its use in connection with negotiated fixed-price type contracts. While cost information has always been considered when appropriate in the field of pricing of these contracts, no uniform ground rules have been in use throughout the Department of Defense.

The new rules will provide common guidelines for both government and industry and will facilitate the selection of the proper type of contract for specific situations, since costs will be treated similarly for all types of contracts.

Our friends in industry have been very concerned about the application of cost principles in the so-called fixed-price area.

I should point out here that, when we use the term "fixed price," we include contracts which have flexible pricing features, such as incentive and redeterminable contracts.

Our friends in industry are afraid that the use of cost principles in

this area will lead to pricing by formula. By this I mean the resolution of each item of cost by unilateral accounting decisions in such a way that hard, overall bargaining would be eliminated.

We intend to watch the use of these new cost principles closely to prevent, as best we can, the result which industry has predicted. However, I'd like to point out to you that, in dealing with the Government and in the size of some of the contracts which industry is handling, these people are in fact agents of the Government, and it seems to me that this can't be a game of hide-and-seek or let-the-buyer-beware business. I think industry has a responsibility and I think they recognize it, but far too often we find indications that somebody in their organization did not. They must put their cards on the table if they are to protect themselves and protect the integrity of our procurement operations and in turn protect the picture in the public mind of how the Department of Defense is operated. Of course this is highly important.

One area in these cost principles that was the most difficult to develop and settle was the area of the liability of costs in research. This applies not only to independent research but to development costs. Here we had the problem of providing a stimulus for contractor research while at the same time preventing a flood-tide of needless and duplicating research costs. The real problem is with the large defense contractors whose business is predominantly with the Department of Defense. In effect they are really captive corporations.

We resolved this problem by making a contractor's independent research an allowable item of cost. However, to prevent abuses, we are in the process of establishing a coordinated program amongst the military departments to specifically review, and at times restrict, some of this type of cost when it appears to us to be getting out of hand.

While it is too early to fully predict the impact of this new regulation, the initial reaction has been favorable.

I might say in respect to this research problem that my feeling was that the best buy for our Government was that if a contractor was willing to put 50 cents of his money into a project we ought to be willing to gamble the same thing, and that he had a better knowledge of his research capabilities than sometimes we had.

I predict that industry will come to accept the new regulation, although I doubt that they will ever stop hammering away in an effort to make specific changes which would be more to their liking.

The development of programs such as these, to assure effectiveness and economy, indicates the necessity for fully coordinated action by both policy-makers and those affected by the implementation of these policies.

A third objective is devoted to efforts to improve the mobilization planning and readiness of the services, including the protection of facilities and materials under attack conditions.

Mr. Clarke of my staff addressed himself to a number of the facets

of our activities which relate to this objective. I know he spoke of the translation of national policy into strategic and logistics plans and guidance and the effect of changes in concepts and their bearing on our logistics plans, and indicated our activities in the refinement of logistics planning under new national security policies and strategic concepts.

We are now engaged in an examination of worldwide mobilization and wartime requirements for movement by ocean carriers. These data will be used as a basis for policy decisions relative to our shipping situation.

The problem of industrial production planning is receiving the closest scrutiny.

Changing strategic concepts have resulted in a revision of our old production-allocation planning program into a new industrial-readiness planning program.

A Department of Defense directive establishes policy with respect to production planning with industry. It specifies the conditions under which the military departments are required to plan with industry for emergency production; establishes the objective of such planning; requires that consideration be given to conditions of a general war and conflict short of a general war; and defines the scope and the limits of planning with industry.

This directive implements that policy by establishing new industrial

readiness systems for planning emergency military production and procurement, by canceling obsolete procedures, and by establishing a mechanism whereby such planning will be accomplished on a fully coordinated basis.

Our vital industry must be protected against sabotage, espionage, and subversion. We must also plan to prevent or minimize damage resulting from enemy attack, industrial hazards, and natural disasters. We call this our industrial defense program.

A basic tenet of the program recognizes that management of industry is primarily responsible for the protection of its plant. Industry participation is wholly voluntary. There is no defense money available to defray the cost incurred by acceptance of security recommendations.

The industrial defense program has been operating successfully for the past nine years, and, in general, the evidence of improvement in the physical security of key facilities has been encouraging. There has been a growing awareness of a need for special standards applicable to specific types of industry. Therefore, in order to meet this need, specific standards have been developed for the communication service industry.

You will be interested to know that it is through this program--and I must confess with the help of a very willing associate, the Telephone Company--that most of the bypass circuiting has been done around cities.

More special standards will be developed or are in progress for electric power and other selected industries. These developments

represent an advancement in the state of the art. They also reflect current strategic planning concepts.

Before turning to our fourth objective, of achieving greater integration amongst military systems, let me first review some of our accomplishments against this objective achieved during the last year.

Early this year a definitive evaluation of the economy and effectiveness of commodity single-manager operations, and an examination of the mobilization readiness and wartime capability of commodity single managers, was completed by DOD. The Joint Staff of the JCS and the military departments participated in this project under the chairmanship of our office.

The evaluation demonstrated that significant economies have been achieved under the commodity single-manager system. It was concluded that the commodity single-manager system is an economical one. It provides effective supply support. It has obtained a high degree of customer satisfaction and approval, and is workable and responsive in terms of readiness and wartime capabilities.

The facts and figures derived through this evaluation have provided much needed evidence and documentation of the advantages and disadvantages in the commodity single-manager system. The concept now has stature. We feel that this is a valuable concept which can be used advantageously in other commodity areas. We also know its shortcomings and we are pressing for their correction.

The Armed Services Supply Support Center recently completed and presented its "Report on Management of General Supplies" to the materiel secretaries and to my office. As a result of this, two additional single managerships which were recommended in this report have been established:

The Secretary of the Army as single manager for military general supplies.

The Secretary of the Navy as single manager for military industrial supplies.

These new single manager assignments were approved by the Secretary of Defense on 6 November. Further extension of this concept is being considered for additional promising commodities. Colonel Case of my staff will discuss these with you.

I might add that the previous single managers that we had covered about 70,000 items, and these two in themselves cover over a half-million items. So they roughly represent about one-sixth of our entire supply system. I might further add--and I am very happy to have this known and want it known--that the services asked that this be done. This is not something that was pushed down their throats.

I think that we have made some important strides in facing up to the contents of our inventories. The size of our surplus disposal program is a good indicator of this accomplishment.

Last year we disposed of $8 billion worth of surplus material at

acquisition cost. We look forward to a level in the next few years of $10 billion and probably, shortly after that, a level of $12 billion worth of disposal each year.

This speeded-up program runs in big numbers, not because we have been inefficient in the past but more because:

1. We have tightened up on our requirements calculations;

2. The ways in which we would fight future wars are not necessarily the World War II ways; and

3. There is a better knowledge of what we have in our inventories.

With a better knowledge of what we have in our system, along with improvement in our procedures, we have been able to step up the use of common assets by all the services. This resulted from better and more effective screening of items, where one service had a surplus and another had a requirement. Lst year this amounted to over $700 million of material that was interchanged--or, putting it another way, $700 million of things we didn't have to buy.

As one measure of success during fiscal year 1958 and fiscal year 1959, our inventory in storage dropped $7.6 billion. This didn't happen by accident. It represents tangible results of some of the actions we have been taking to clean up our inventories.

Some time ago a policy was issued which established economic order and probability principles for application in the computation of peacetime operating and safety levels of supplies. The effect of this

policy, when fully implemented in July, 1960, will make uniform the computation of military service materiel stockage objectives for those items covered by the policy.

In January of this year a policy was issued which makes all wholesale inventories above a uniform retention level available to meet all valid requirements of the DOD without charge. In other words, the Army, if it has an overage, can give to the Navy, if it has the need, this type of material at no cost. In so doing, this policy provides for a mandatory interchange of materiel assets between inventory control points.

Implementation of this policy will provide for integrated matching of requirements against long-supply assets and will assure the optimum utilization of long-supply stocks.

Also under this policy additional mandatory steps must be taken by each military service to assure utilization of existing assets before procurement action can be taken.

The reduction in inventories permits reevaluation of storage requirements.

Since 1954 we have inactivated over 27,000,000 square feet of warehouse space. We are scheduling 13,000,000 more square feet of space to be inactivated by the end of the year 1962.

A cross-servicing agreement has been made between DOD and GSA whereby storage space operated by any Federal agency can be used by

another Federal agency.

The Army has directed a reorganization concept to be applied in its general depots so as to eliminate multiple organizational units in the area of storage, warehousing, materials handling, and stock control. In my opinion, this is a major accomplishment on the part of the Army.

So much for some of the highlights of the progress that is being realized. We do not want to be thought to be complacent and we are not satisfied with the progress. There still is a lot to be desired and to be done.

At a materiel secretaries' meeting in May of this year, the mutual opinion of those in attendance was that now we should take positive action in supply integration. As a result of this, I requested the deputies of the materiel secretaries to work with my deputy in the development of a positive program of integration of supply activities.

We have been working closely and continuously with the materiel secretaries and their military and civilian advisors for several months to establish a comprehensive program for supply management improvement. This program, referred to as the defense materiel management program, is now complete and its objectives, approach, and major details are unanimously agreed upon.

I believe that this unified program approach to supply management will succeed. To the best of my knowledge, this is the first time we have

had a program of this magnitude and coverage in the Department of Defense which was developed in collaboration with the military departments and approved by them in advance.

I believe that Paul Riley, who is in our office, is going to speak to you on this program on a later date in your course.

The Defense Materiel Management Program contains some 26 projects which are designed to make significant improvement in the management of DOD supply operations. Included in this extensive program are projects which will provide a proper basis for determining the method of supply management which is the most efficient for each item of supply in the DOD. This will permit the classification of all items of supply into three management groups:

1. Those items which must remain under individual service management.

2. Those items amenable to integrated management.

3. Those items for which management control can be determined on economic considerations and need not be controlled by the military. For such items we will make local purchase procedures and extensive use of GSA support.

I might add in this respect that it has finally come to dawn on the military that, if you can get GSA to be the wholesaler, retailer, and stockkeeper, you don't have a lot of funds tied up in this inventory and you have to buy only what you need, and you don't have the losses. They

take the losses. They make very nominal charges for doing this and it is a pretty cheap way of doing business, particularly when you get into the field of things like waste-paper baskets and desks that are surely going to win or lose a war.

In other projects within this program we will direct our efforts up and down the logistical spectrum--from the improvement of single manager efficiency and wartime readiness, the improvement of our coordinated procurement program, the provement and integration of supply and fiscal policy, to the development of policies for the supply of common items to unified overseas commands.

This program is the latest of a series of logical steps to integrate materiel management in the Department of Defense without disrupting the complex, worldwide military supply systems and thus impairing the readiness posture of our Armed Forces.

We expect that the program will be accomplished during 1960, depending upon the amount of resources that we can put to it. However, I would point out to you that, for every step of progress we make in this program, there is an accumulated yearly saving by eliminating some of the things that are costing us unnecessary dollars at the moment.

I have spent a considerable amount of time here in discussing our broad objective for attaining greater integration, and I have probably bored a lot of you with this. Let this be fair warning to you as to what happens to you if you become a logistician. But this is the type of thing

that we have to work on. However, I would like to point out to you that we do have this basic objective of attaining a greater integration and that this objective is in accordance with the wishes of the President and the Congress.

I would like to remind you that concurrent buying and selling are still going on, that cross-hauling and back-hauling take place, and that we still need better control of all these things. Part of our problem is that our system is so big that I don't believe that anybody can make a flat statement that this will never happen again or that we are not doing this. We certainly are, I am sure, and I might add that I found the same thing to exist in business. We would no sooner get some place cleaned up and thought it was going right, and we would turn around and take the next one on and the first one went to pot again. I guess that's why they hire executives.

I would like to close with a challenge to you, a challenge of all of us to cast aside preconceived notions and service prejudices and to seek ways for achieving significant break-throughs in our supply and logistics concepts.

The next few years are bound to witness substantial changes in logistics. New technologies will require new concepts. Additionally, pressures for logistics improvement and economies are bound to grow.

Military and civilian alike, you have been afforded a great opportunity to be at this school to study and reflect on matters relating to our

professional responsibilities. Your ingenuity has been challenged, and new vistas have been opened to you.

Stimulated by this educational experience, I hope each of you will give renewed emphasis and fresh thinking to the problem of how we can best achieve our objectives; how we can insure an organization which will provide us with the best military posture in a nuclear era in which we have little past experience to guide us.

We in the Office of the Secretary of Defense are proud of the fine educational work being carried on here at the Industrial College. I am confident that you will apply this special training to excellent advantage in making your personal contributions toward the improvement and betterment of logistics management.

I understand that we are about to have a break here, General, and then I can come back up here and see whether I can pass my exams in answering some of these questions. I won't guarantee to answer all of them, because I am quite sure I don't have that capability; but I'll do my best.

Thank you very much.

COLONEL DAVIS: Gentlemen, Mr. McGuire is ready for questions.

QUESTION: Mr. Secretary, would you care to comment on Mr. Saltonstall's bill in the field of procurement?

MR. McGUIRE: Yes; I'll be glad to. We did not oppose the bill.

We made some modifications in it. I see no need of the bill. We can do everything the bill proposes. The bill, as originally drafted, has several objectives. It predetermines how you are going to buy something 10 years from now when you don't know what you are going to do. I think it originally got started out of some testimony. That has been said by a man named Livingston from the Harvard Business School. The concept was that if you just give industry a check for $50 million they will produce the weapons you want. I just don't think this faces the facts of life and I am not sure that we want to do this or that industry really wants us to do it, either.

There were several other aspects of this bill that we objected to. They were putting too much emphasis on the weapon systems. The weapons system just happens to be a terminology for a whole mess of things and different ways of doing something. You can't describe a weapon system in a piece of legislation. It just won't work, in my opinion. We had to make those modifications.

For example, under their original interpretation, as I read it, you could interpret MATS as a weapon system. I don't agree with that. We've had enough troubles with MATS without making it a weapon system.

QUESTION: Sir, you mentioned this new move to give part of the contract to or allow certain expenditures for research. How do you solve the problem of who gets rights, if they are putting in half the money and we are putting in half the money?

MR. McGUIRE: Well, what I am trying to say to you is: If you are a contractor and you are doing some research, providing you are operating it properly and administering it properly--which I presume you are if you are running a prudent business--this is no different than rent. This is part of the overhead and this is part of the thing that makes your company capable and qualified at a later date to do some of the things we want done. So I don't get involved in the patent exercise on this one at all. Where we get involved in patent rights and exercises is where we ask a man, and pay him a specific sum, to go out and develop a product. We are having quite a go-around with Senator Long on that one right now. You may have read about it in this morning's paper.

I am talking more to the kind of research that they call basic research, and I don't know where it begins or where it ends. It is making our country capable 10 years from now to do whatever it is we are going to be doing. I think if we are going to have all of this education program for developing scientists and engineers we had better be sure that we recognize that some of the best managers of these projects are the businesses that have to depend for their livelihood and their future on the results of this research. That's all I am saying. Do I make myself clear, and answer your question?

STUDENT: Yes. In other words, you are not after products at all; you don't claim that.

MR. McGUIRE: Well, I'll give you a good example. During the war Dr. Coolidge of General Electric showed me what they at that point

called bouncing silicon. This was something that looked like a piece of white rubber. He would drop it on the floor and this darn thing would start to bounce up and down and just keep bouncing. This was a byproduct; it was an accident in some of their basic research. It had nothing to do with the research and development contracts that we had with GE during the war. Well, I don't need to tell you what has happened in industry as the result of this development. I think this is overhead and, as the customer of a business, we should accept that as part of the overhead.

QUESTION: Sir, could you tell us a little bit about what happened to this $8 billion in equipment that was disposed of? How was that distributed?

MR. McGUIRE: Yes. We got hell in the press for having it. That's the first thing that happened.

STUDENT: What I am interested particularly in is: Of that which is sold, what happens to the money? Do the services get to use it over again?

MR. McGUIRE: No, they do not. This goes into the Treasury basically, I believe. Recently we prevailed upon the Appropriations Committee to authorize us to take out of this money first our administrative cost of doing this. Prior to that--I think it was in Section 413 or something, of the Appropriations Act--we had a restriction, I think, of $40 million. Then we got it up to $44 million, and this was all we

could spend on this. This was like telling me in the retail business that if business is good I can't hire sales girls to take care of the customers. You put an arbitrary ceiling on this thing which is artificial. This isn't the way to control this thing or measure it. I finally convinced the Appropriations Committee that this was good business.

Now, the difficulty with this surplus business is that we are evaluating our return on what was known as an acquisition cost. A substantial part of this stuff is junk and we have gotten our money's worth out of it. I think that, if we were to have a depreciation system in our business, as ordinary business does, we would find that we are getting a pretty fine return out of this stuff.

I know that there are a lot of things in there that shouldn't be in there, too. But let's recognize them and get rid of them and get them out of these warehouses , and stop having people count them, and all that sort of thing. This costs money. Also, it is not very encouraging to count old items. They just get worse and more useless all the time the fellow counting them looks at them.

QUESTION: Sir, do your new procurement regulations permit contracting officers to recognize and pay for delay damages per se?

MR. McGUIRE: You've got me. I can't remember. I am not sure. I'll look it up, though, and see that you get it.

QUESTION: Sir, I'd like you to address yourself to the question of the resolutions required between the centralization that you propose

in our supply system in the military forces and the decentralization permitted in our great corporations, such as General Motors and General Electric?

MR. McGUIRE: I am not sure that we are doing anything. This philosophy of centralization and decentralization is sometimes greatly misunderstood. I am not sure that we are actually doing this to any degree differently than they are. They have a central purchasing operation, and they review these things, and they set them up on the economics of where they can be best purchased, and so forth. Now, we have a system that is much bigger than theirs and covers many more items.

Let's take the Army Single Manager, for example. The Army Single Manager in fact does buy all the clothing, but it warehouses and distributes these things in many different areas and it utilizes assets. We can't quite move our warehouses around and sell them and dispose of them the way General Motors does.

I think we have two basically different problems. It is a serious danger, to my way of thinking, that you can sit outside and compare the military operation and its requirements and its restrictions, if you will, on what we can do with a business corporation.

I am not sure I have answered your question as clearly as you would like, but I just don't really think the two requirements are comparable.

QUESTION: Sir, you mentioned that we are selling $8 billion worth of excess each year and that we are going to build up to approximately

$12 billion in the next couple of years. A recent chart I saw indicated that we are procuring approximately $20 billion of materials each year. Isn't this quite a turnover of our materials, in expending this much money each year, as this represents?

MR. McGUIRE: Let me first correct you on this. I am glad you brought this point up. The figure that I am talking about, $8 billion, includes capital goods. It includes ships; it includes tanks; and airplanes, and a lot of other things, to a substantial degree, actually. The figure that you are talking about, $20 billion, includes what are general procurement items, including a lot of consumables, also--oil, food, medical supplies, and that type of thing. Actually, there is another factor that goes into our consumables, or, let's say, that must be matched along with what we buy each year. This factor is the things that we repair. We do a terrific amount of this.

Have I answered your question?

STUDENT: Yes, sir, in a way.

MR. McGUIRE: Well, what's the rest of the question? I am trying to say you are comparing unlike things here. One includes capital items and consumables and general supplies, and the other does not include capital items.

QUESTION: Are there any new developments on the small business front as far as DOD is concerned?

MR. McGUIRE: Not as far as I am concerned, but I am sure there

will be a lot of new developments in the next few months. There have been one or two. Under our Small Business Program on all prime contracts of over a million dollars the prime contractor must have a small business program. For factual purposes, we don't tell him what the program is, but he must have a program. I think this is a long step forward and it is going to be recognized in the Congress as such. I don't think it is such an earth-shaking thing, anyhow.

If you had the opportunity of reading the testimony of industries before the Hebert Committee in the weapons systems hearings, you found out that most of these good companies do have small business programs.

COLONEL DAVIS: Mr. McGuire, thank you very much. You have given us a feeling that in this direction the policy guidance that we get in this terrific job is in very very good hands. On behalf of the Commandant and the College, thank you very much.

MR. McGUIRE: Could I make another observation? I have been told never to do this but these extra last words are the fatal ones. We had people from the Chamber of Commerce over there the other day talking to Mr. Gates and trying to get our broad program and to establish theirs. As you know, they run what I think they call a narrow band or something around the country, where they have a couple of chartered planes and they go out and talk. This is very important, because, for my money, one of the big problems we have is the lack of understanding

that we are doing some good things. Those things are blown out of all proportion. I told these gentlemen that, in my opinion, in the time that I have been in the Pentagon--and I have also had some associations here prior to coming down here--the overall cooperative atmosphere of recognizing the problem and trying to do something about it objectively and spending less time in fighting on paper--which isn't going to win any wars either--is the best that I have ever seen it. We are having in the services a demand that we get on and do some of these things and solve some of these fuzzy problems that have been kicking around so long that you really can't identify what they were when they started.

I wanted to pass this word on to you, because I feel very strongly about it.

Thank you very much.