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OFFICE OF THE ASSISTANT
SECRETARY OF DEFENSE

Honorable E. Perkins McGuire

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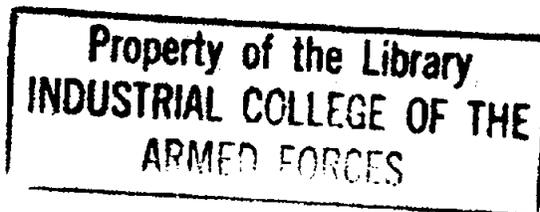
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ADMIRAL PATRICK: General Houseman, Gentlemen:

There are many big businesses in the United States today at the moment not doing too well. However, the biggest business is running the logistics requirements of the Department of Defense--I might add, on a level budget.

This business is handled through and by the Assistant Secretary of Defense for Supply and Logistics.

Our speaker today holds the tremendous responsibility in the field of planning, requirements, procurement, production, distribution, and their related activities. This gives him a wide field to discuss in this 45-minute period.

So, as we move into the Material Management Course today, it is a great pleasure to hear from the Honorable E. Perkins McGuire, Assistant Secretary of Defense for Supply and Logistics.

He has been a close friend of the College and has participated for a number of years in our program. He has also encouraged members of his activity in the Department of Defense to come down and give us guidance on major policies and systems which he is responsible for.

It is certainly my privilege, Mr. Secretary, this morning, to introduce you to the Industrial College Class of 1961.

MR. McGUIRE: Thank you very much, Admiral Patrick. I suppose that I should start off by saying that as you sit out here in this chair you feel as though you were sort of exposed here for some particular reason. Somebody told me there is a button on this podium and it is a new innovation, and if you press it you'll go through the floor. I feel a little bit safer knowing that the button is up here and not down near one of your chairs.

Members and Students of the College: At this College, where knowledge and experience of fellow students and faculty are freely exchanged, you are afforded an opportunity to add breadth to your scope of understanding of national policy.

This tour of duty should greatly assist you in attaining a better understanding of our national defense problems. At this time it is also important to evaluate previously held concepts and to continue to reexamine, with an open mind, our country's future in terms of the broadest national interests. We must develop officers who can develop new solutions to new problems. And I might add here that I haven't read today's version of reorganization, so you will have plenty of opportunity to use your efforts in that field.

We live in an age of technological leapfrog. In the ultimate analysis,

national survival may depend on our ability to outguess progress.

We pick a weapon system, make a down payment of a billion dollars, and hope we can make it before it is obsolete. Under these conditions we can ill afford the narrow, parochial thinking of an individual who thinks only in terms of his own branch of the service. I know there are some civilians here at this college, so I had better turn that around and add to it--or of the Department of Defense.

For the same reason we cannot afford the mental process of the Maginot Line thinker who wants to perpetuate the past system, method, or procedure. As President Eisenhower has said, we must free ourselves of emotional attachments to service systems of an era that is no more.

The art or science of logistics must be advanced if we are to keep pace with technological progress. Stone Age methods, even updated Stone Age methods, are inadequate in this space age. We have a unique challenge to meet today. Modern weapons and equipments are more complex and costly. The average jet engine today costs more than the plane did yesterday.

In World War II we put electronics on planes and ships. Today we put planes and ships on electronics. Tomorrow our present jet transport may well be as obsolete as Hannibal's lumbering animals. 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.

Today it is missile minutes. By missile, Washington and Moscow are now closer than were London and Berlin by the bombers of World War II.

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 arrows. We had many hundreds to exploit the logistics of the packaging and transportation of ammunition. But we had very few years to work on the logistics of atomic weapons. Before we solved this problem a more powerful hydrogen weapon appeared. The first hydrogen weapon was a thousand times more powerful than the first atom bomb. Progress is by leaps and bounds, not by evolution.

We had even less time to prepare the logistics of the intercontinental ballistic missile. New weapon systems, vaster modes of transportation, instantaneous communications, all of these, demand new logistics concepts. Our vital challenge is to develop new ideas geared to the new age. This requires reviewing and discarding traditional concepts wherever necessary. If you are now doing something the way you used to do it, there is a good possibility that you are doing it wrong. We must aggressively challenge the present methods and we must search for practical ways of speeding up operations and of streamlining costs.

Remember that defense costs today are tremendous. Our military equipments require huge outlays of money. One out of every two dollars

spent by the Government is spent on defense. Putting it another way, the total amount of personal income tax collected in the United States goes for defense.

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 the military requirements.

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

It is clearly understandable why these demands have occurred with increased emphasis. Our military supply systems today have an inventory value of \$44 billion, not counting capital equipment such as planes and ships. Supplies are provided through approximately 2700 military installations, depots, and facilities worldwide. This vast complex network is an obvious area in which to seek greater economy and better integration.

Sustained criticism has led to sustained 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.

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, like motherhood, always generating, it seems, a very popular appeal.

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

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 cost of maintaining in peacetime a massive Defense Establishment demands the utmost economy and efficiency in all of its operations.

After considerable debate 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 to such other organizational entity 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 points? It is because I want to remind you of the climate in which we are operating. We must find better answers to our logistics problems. If we do not find the answers to the problems, we may be given an answer by Congress.

The job of developing policy for our Defense Logistics System rests

with my office. This obviously cannot be accomplished unilaterally. It requires the collaborative efforts of the military departments and the Joint Chiefs of Staff. I would like to go on record here of saying to you that we have had excellent cooperation in this field.

Our supply and logistics organization covers the following broad areas: Planning and requirements; procurement; production; supply management; telecommunications; transportation; petroleum; maintenance; and small business. I didn't put small business at the end of that list deliberately. It can get to be quite a problem.

We are a policy-making organization and we try not to get into operations. You might be interested in how we seek to arrive at these policies. 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 material secretaries of the military departments in order to consider common problems and to consult with them in the formulation of logistics policy. 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 the common-sense approach. I am very proud of the record we have. I am not speaking for myself, but I don't believe there has ever been a document sent to the Armed Forces Policy Council--and we have sent some documents that have

been startling, let's say, or daring--where there has been a dis-
senting position of a service. This means that I consider/our respon-
sibility to work these problems out with the services and not get them
into a debating level up there from a briefing book. We have been
able to find the answer to a lot of these problems, maybe not as fast
as we should, in the minds of some people, but I think we know our
subject by the time we get out/^a piece of paper.

For the purpose of discussion this morning, I would like to illus-
trate three of our very broad objectives in the field of logistics man-
agement. The first of these broad objectives is to assist in the
improvement of practices within the military supply system. In the
area of improving management practice, we have completed the Federal
Catalog System. This gives us for the first time in history a common
identificational language with all of our supply system items worldwide.
That is a single classification, a single name, a single description,
and a single stock number for each of the almost four million differ-
ent items. This job is complete.

In addition, in 1958, we finished the job of converting all of our
supply records, catalogs, and stock lists to this new system worldwide.

I am sure that you appreciate the value of such a management tool.
It takes on further significance in that the NATO countries have volun-
tarily adopted this catalog system.

We have completed the coding of 90 percent of these items to show

how each service manages the item--that is, whether it is standard or nonstandard, centrally stocked, locally procured, 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 manage it.

Now that we know what we have, our standardization program becomes increasingly important. We are currently subjecting about 1.5 million of our items to short-cut standardization programs which together we call the Accelerated Item Reduction or AIR Program. Here we are simply buying all possible items through common-sense decisions, leaving to our long-range standardization program the design and engineering decisions which can further reduce the supply system.

I might better demonstrate this to you by simply stating that, in my humble opinion, we don't need a lot of high-class engineers to decide which wastepaper basket we need. We can stick them up on top of a desk and look at them. There are maybe two we'll need, and not, as we found out, about 25 that we were carrying.

The second of our broad objectives is to develop selected programs to insure effectiveness and efficiency. As an example, one of our programs is directed to the review of transportation 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 has been declared as surplus. In San Francisco, separate Army and Navy refrigerated terminal operations have been consolidated at the Army terminal. And we have many other examples of this type of effort.

Our major efforts in the procurement area also support this objective of effectiveness. During the last three years we have established and published significant policy changes and additions in the Armed Services Procurement Regulations. Most of these changes and additions were directed toward strengthening procurement practices in the areas of price and cost analysis. These apply to our prime contracts and, in the subcontracting policies, procedures and practices of our contractors.

I would just point out to you that many of our prime contractors are so large, and we occupy such a substantial slice of their business, that in reality they are agents of the Government, and that the normal philosophy of "let the buyer beware" cannot exist.

We believe that our policies are steps in the right direction. The General Accounting Office substantiated our belief when it stated to the Senate Arm Services Committee:

"The Department of Defense has shown a sincere desire to strengthen procurement policies and procedures and to achieve effective pricing of its procurement contracts."

Frankly, we feel that's fairly high praise, coming from that area.

This is a good beginning, but it is only a beginning. Now that we have virtually exhausted what can be done by policy statements, a difficult and equally important task remains. We must assure ourselves that these policy statements are being put effectively into practice. We must wage an unending battle to see that all possible steps are taken to get the most out of every procurement dollar.

This isn't just a matter of economy. No matter how big the Defense Budget is, it never will be big enough. It will reach the limit of what we can afford long before it reaches the limit of what we need. Under these circumstances, the missile that we can buy with money saved is far more valuable than the one we could not buy with the increased appropriation we did not get.

Our programs to achieve procurement effectiveness are in two basic categories: Those designed to overcome internal deficiencies within the Department of Defense, and those tailored to achieve more efficient and effective performance by our contractors. These are our external programs. Our internal programs are aimed basically at training our personnel, not merely to improve paperwork techniques but also to generate an awareness of the obligations, responsibilities, and full import of the procurement process. Too frequently procurement is based or used as a synonym for contracting. This is like saying carpentry when you mean construction. This is a nearsighted view

which we are trying to dispel.

First we are concentrating on determination of net requirements, locating and using available assets and then buying only what we need. For these bona fide needs we must have realistic delivery dates, realistic from the point of view of need, as well as realistic from the point of view of production.

We are stressing the need for eliminating changes which result in increased cost and delays without commensurate results.

We are emphasizing the necessity for timely relief of procurement programs. This will avoid hasty procurement by allowing for well considered, definitive contracts.

These facets of the procurement program are usually controlled by personnel of the contracting offices, but they definitely help or hinder the procurement process.

We are placing increased emphasis on the training of our contracting personnel, such as the audit, production, inspection, and price analysts who assist the negotiator.

Supervision, contract review, and contract administration are receiving increased attention at all levels of management in the Department of Defense.

Our external programs are based on establishing closer relationships with our contractors. We are emphasizing their responsibilities to the Government. The military departments have been successful in achieving

major cost reductions through joint Defense-industry efforts. I have a little difficulty in swallowing some of the savings contended because the assumption here is that the services did all of this work and the industry contributed nothing. It depends on which fellow you are talking to.

In another area the Military Traffic Management Agency, MTMA, is developing an integrated program to apply computers to traffic management operations. The plan calls for the integration of traffic management more thoroughly into the supply system in order to produce faster response through the more rapid processing of transportation requirements.

The Military Traffic Management Agency reports estimated total savings in freight and passenger traffic management for the fiscal year 1960 in excess of \$42 million, with an operating budget of approximately \$7 million. Its 1 percent administrative cost is considerably under the figure cited by the Hoover Commission's 2 percent as being a justifiable cost for the performance of good traffic management functions.

The third broad objective that we have is to develop ways and means for achieving greater integration amongst the military supply systems. We have made an evaluation and an examination of the mobilization readiness and wartime capability of commodity single managers. The evaluation demonstrated that significant economies have been achieved under the Commodity Single Manager System, and 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 it is workable and responsive in terms of readiness and wartime capabilities.

The facts and figures derived through this evaluation have provided evidence and documentation of the advantages and disadvantages in the Commodity Single Manager System. The concept now has stature. We feel 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. Four additional single managers have been established. The Secretary of the Army was assigned the responsibility as single manager for military general supplies. The Secretary of the Navy was assigned the responsibility as single manager for military industrial supplies. These two single manager assignments were approved by the Secretary of Defense on 6 November 1959. The last two of the four were established in May of this year, when the Secretary of the Army was given the responsibility as single manager for military automotive supplies, and also for military construction supplies. Colonel Case of my staff will speak to you in more detail on 19 December on the performance of these single managers.

You have undoubtedly heard a lot about surplus. My friend, Senator Douglas, puts this in the context of evidence of waste and

inefficiency. I think 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 \$9 billion worth of surplus material. We anticipate the disposal of over \$10 billion this year. For several years after 1961 we estimate that it will run in the neighborhood of \$12 billion. I might add that we have become fairly good at estimating this. Three years ago we were missing our targets all over the lot. Two years ago we told the Congress it would run in the neighborhood of \$8 billion and we hit it right on the nose. This is another evidence that we know what we are doing, and we know the contents of our inventories.

This speeded-up disposal program runs in big numbers, not because we have been inefficient in the past but more because we have tightened up on our requirements calculations, and the ways in which we would fight future wars are not necessarily the World War II ways, and we do have a better knowledge of our inventories, as I mentioned before.

Speaking of knowing your inventories, with a better knowledge of what we have in our system, along with improvements in our procedures, we have been able to step up the use of common assets by all the services. In the last fiscal year about \$2 billion of material was interchanged, resulting in substantial savings. In other words, if we had gone out in the market and bought this, we would have spent that

money. Expressing it another way, this is about a dozen Polaris submarines and two conventional aircraft carriers that we are allowed to buy, or that we have the capability of buying, or about 250 B-52's. When you start to demonstrate this kind of saving, people like Arleigh Burke and Tommy White get very much interested in this management of our inventories, because we know what we are doing. In effect, it gives us an added capability of putting strength into our equipment system.

As another measure of success, between 1958 and 1960 our inventory in storage dropped \$10 billion. I mentioned earlier that it was \$44 billion. In 1958 it was \$54 billion. This didn't happen by accident. It represents a tangible result of some of the actions we have been taking. In my humble opinion I know that in the cases I have examined we haven't weakened ourselves. As a matter of fact, we know more about being responsive and supplying our requirements. I can quote you statistics on end on that one.

The reduction of inventories permits reevaluation of storage requirements. We explore warehouse space, and I think we are the only organization in Washington that makes money on this. Normally, when you explore space you spend a lot of money. Since 1954 we have inactivated over 27 million square feet of warehouse space. We are scheduling 13 million more square feet of space to be inactivated by the end of 1962.

In reading this over yesterday somebody made the observation that I had better withdraw that forecast because possibly we'll need this space to store all of the papers relating to the reorganization. I don't know whether that's a safe position for me to leave myself in.

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. I might add that in this field the funds we get from the rental of these things go into our M and O funds as an offset. So there is an incentive there to get other people to use this space, because it gives us the capability to do our M and O job better.

The Army has directed a reorganization concept to be applied in its general depots so as to eliminate multiple organizational units in the areas of storage, warehousing, material 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 has been realized. We are not complacent in this field, and we are not satisfied. There is still a lot to be desired. I guess this business is a little bit like painting Brooklyn Bridge. As soon as you get through and get over to the other end, you start off all over again.

At a Material Secretaries' meeting in May of last year, the mutual opinion of those in attendance was that we must move even faster in the improvement of supply management. I requested the deputies of

the Material Secretaries to work with my office in the development of a positive program. Up until that time we had been on some projects sometimes on a defensive basis on something that the GAO report stimulated or something that some Congressional area had activated. This didn't seem to me to be a very orderly way to go about this.

After working closely and continuously with the Material Secretaries and their military and civilian advisers, we established a comprehensive program. This program, referred to as the Defense Material Management Program, was unanimously agreed upon by the services. I believe this unified program approach to supply management will step up the tempo with which we are going to solve some of these problems.

To the best of my knowledge, this is the first time that we have had a program of this magnitude, coverage, and frankness developed in collaboration with the military departments. We've got information here about the Army Supply System that I think the Army will admit has never before been put in one package. The same thing is true about the Navy and the same thing is true about the Air Force.

Paul Riley of my office, in Supply and Management Policy, will discuss this program with you in detail later in your curriculum. So I will just sketch in the outline today to give you some insight as to its coverage.

The Defense Material 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 methods of supply management which is the most efficient for each item of supply in DOD. This will permit the classification of all items of supply into three management groups: Those items which must remain under individual service management; those items amenable to integrated management; and those items for which management control can be determined on economic considerations and need not be controlled by the military. For such items we would use either local purchase procedures or the extensive use of GSA support.

In my opinion this undertaking, however difficult, will once and for all give us a real basis to proceed in a logical and meaningful way to improve or integrate our military supply systems.

We elected to start this coding process with the classes of supply assigned to the two new single managers for general and industrial supplies. The coding and classification action in these areas is well under way. The program is made up of a series of logical steps in a plan to integrate material management in the Department of Defense without disrupting the complex worldwide military supply systems and thus impairing the readiness posture of our Armed Forces.

This program has had already substantial impact on our thinking and we have made a lot of progress in it. We now have projected

forward additions to the program for the coming year.

I have taken a considerable amount of my time in discussing our broad objectives for attaining greater integration of supply. However, I must go a step further and touch on a further type of objective. I don't mean military service here, I mean serving one--communications. In telecommunications we are developing a single worldwide long haul, point to point communication system to meet all the requirements of the Department of Defense.

This is the newest Defense approach to solving an intricate and complicated problem. All of this is basic to the wishes and requests of the President and the Congress. The communications demand for high-speed data, closed circuit and network TV, incryption, broadband data, visual information, speed, reliability, and security to support the present worldwide needs for sophisticated weapon systems and guided missiles requires careful planning now in order to assure that adequate facilities are provided efficiently, economically, and at a time when they are needed.

The Secretary of Defense issued two directives and authorized a Defense Communications Agency and a Defense Communication System, both under the direction, authority, and control of the Secretary. We believe that considerable advantages will be obtained from the integration of our current communications systems into a Defense Communication System. This concept of integrating without disrupting essential

communications will provide us the best method.

The Defense Communications Agency is now developing plans for assuming operational control and full supervision of these Defense Communication System parts by March 1961.

I would like to close with a challenge to you gentlemen, a challenge to all of us to cast aside previous notions and traditional methods. Time and technological progress have invalidated many established methods which were designed to meet previous conditions. The triumph of weapons technology depends on achieving significant breakthroughs in our supply and logistics concepts.

The next few years are bound to witness substantial changes in the logistics field. New technology 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 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 that 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 that 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 privilege and training to excellent advantage in making your personal contributions wherever possible toward the improvement and betterment of logistics management.

Gentlemen, my apologies to you for not mentioning when I started that I looked up there and I thought you had left the room with only the Admiral holding guard there.

Thank you very much.

CAPTAIN MURRAY: Mr. McGuire is ready for your questions, gentlemen.

QUESTION: Mr. Secretary, in our desire for simplicity and practicality, it seems to me that we pay a little bit too much attention to sophistication. I am speaking specifically of the use of electronic data-processing equipment, wherein most of the operations I have seen were collecting so much management material data that we don't have time to analyze it and use it effectively. Will you comment on this, please?

MR. MCGUIRE: Do you think you are alone in this in the military? This is very obvious data, and with all due respect to ICBM and other computer manufacturing companies one of the problems in this field

is that these machines, in order to prove their tremendous capability to do so many things, seem to crank up a lot of information to start with. This is the point that I tried to touch on in the standardization program, where we found people going through a laborious exercise and being very scientific about it. I used the example of wastepaper baskets. You can take the example of toilet paper if you want. You need toilet paper for one reason that I know of, and you don't need 14 different varieties of it, but you probably found you had them.

There's a very great danger in this field, and there is a further danger that we are paying a lot of attention to getting reports, and the obvious danger that we are not doing enough to train people to use the reports.

If you don't mind my taking a little bit more time than you thought the question would use up--I am following that system. They tell me I am a professional at it in Congress. When they ask me a question it takes three hours and one-half for me to finish the answer, and then they haven't any more time. At any rate, in my business we lived on these reports but we abolished them very quickly because they weren't effective.

The first thing, when our reports come out, is that they hit my desk. I have a number of problems in operating this business, so I had a young man, a top graduate of our training group, analyze and highlight points of this. Then we would have a meeting on that report within 2 or 3 hours

and would start getting some things done about it.

We have the obvious problem in government that our reports are late in terms of effectiveness. It takes too long to get them out. I haven't been able, since I have been here, candidly, to get my fingers on a sense or a feel of management through some reports that get to me promptly. I just don't agree that it can take so long to get these reports out and I have a severe reservation. We tried to take steps on this, but I don't think we are doing it as effectively as we ought to, to limit the use of these machines.

I am not talking about the cost of them, because the cost is nothing if they are effective and do something. But right now I have a feeling that, with all due consideration for the motives, we have developed a group of people who are dedicated to becoming slaves of these machines.

Have I answered your question?

STUDENT: Yes, sir.

MR. McGUIRE: Do you agree or disagree? I'd like to know.

STUDENT: I agree.

MR. McGUIRE: Thank you.

QUESTION: In recent years much has been done to speed up the distribution cycle by airlift and data-processing equipment and to speed up quite a bit basic requirements computation, but it seems that we have lost much of this time in the requirements approval cycle and in the procurement cycle by the ever longer cycle of approvals and reviews

that go on. Is anyone doing anything to shorten these?

MR. McGUIRE: I would like to repeat what I think your question is--that the bureaucracy of reviewing and reviewing takes out any gain we make in other fields. Yes, I think that we are. I wish I had been able to talk on this subject, because I think I could be more interesting. We have developed some logistics guidance now. The premise of this logistics guidance is relatively simple. It means we are all going to fight the same war and we're all on the same football team, in essence.

With these criteria yardstick set, it's very easy in some of these fields to know what the right answer ought to be. It's a simple formula. You don't have to challenge the Army, for instance, as to whether or not they are going to equip the entire Army with tanks across the board on a wartime utilization rate, when only X number divisions are planned in limited war. The same thing applies to the Air Force and the Navy.

In that field I think we have made very very substantial progress. I was commenting here during the intermission to Bill Gurney that we have just finished a very comprehensive review of Army modernization. This has been a controversial area. It's fine to talk modernization and it's fine to have the fellow on the other side talk about what you had or whether it was modernization, and so forth. But I think we are in the position now where we have a document. The Army agrees with it and we agree with it. It means this kind of debate is out. We fish or cut bait. We buy or we don't buy.

I could go on and tell you about a lot of these fields. I think in essence what I am trying to say to you is that I am not much interested and am not much of a believer in the kind of argument that goes on that to cut down the elevators in a store would mean less cost. It would. It's true. But it would have fewer customers, too.

To spend four hours debating that point of whether we have an Army or not, or something of that exaggerated nature, just is not productive. We are trying to get this thing into fields where we in these review processes know what we are talking about.

Strangely enough, I know that the Department of Defense, in the minds of a lot of people, and properly so, has been sort of a devil in certain areas. But I find my office being used more and more by the services to ask assistance in getting the proper point of view put across so that the Bureau of the Budget, the Comptroller, and others understand it, and we don't have in Defense 4 or 5 different viewpoints because the fellow never knows when he has sold his bill of goods .

We are doing a lot of that. I think we have a very substantial responsibility in this area.

Have I answered your question? I don't want anyone around here to be afraid to say no. I'll try to amplify my answer if necessary.

QUESTION: What are your views on the weapon system management concept of operation? Does it have a bright future, or are we phasing that concept out?

MR. McGUIRE: First I think somebody had better understand what the weapon system management concept is. It is any one of a great number of things. I have not found a weapon system management concept that is identical to any other. The Polaris system is a weapon management system. You fellows within the Air Force have 4 or 5 different approaches on the degree that the thing is required.

I think it is here to stay. I am not so sure that there is anything so new about it, except that we now have in industry a greater capability than we had before World War II.

My only concern with it is that we maintain in the services a certain amount of management control, production control, and capability, and that we don't sell everything over there under the system.

Incidentally, the Harvard Business School, under a grant from the Ford Foundation, is making a very exhaustive study in this area, and I spent a day up there discussing the subject with them. I can't say that I will agree with them in their conclusions or anything else. But they found out a very interesting thing.

The automotive industry, talking about weapon systems, never makes a change that is too radical. If it's wrong, they have to haul back all those cars and pay for them. So this is a gradual kind of thing. Our business in weapon systems is certainly not that kind of business. We can jump 10 years if we have to, and we'll gamble on it. We are doing it now with

our big missiles. I think we've got 3 or 4 types of implacements that we have to put in, not through waste or not knowing what we are doing but because we are experimenting. On one hand, if we find out something, we put it over here. We never get a chance to get the thing married before it's finished.

QUESTION: Mr. Secretary, you pointed out an awful lot of millions of people in this country who are making a living in being associated with our Defense budget. Periodically we try to cut down the 14 types of toilet paper and we get political reaction which seems to make it difficult. The Navy Weapons Plant here in Washington has been trying to shut down.

MR. McGUIRE: Why do you mention that? They tried to hand that one to me the other day.

STUDENT: We have done the same thing in weapon systems. We decide that we don't want to go along with one and there's a heck of a big political furor. Will you comment on the possible impact of that on the integration of systems and the cutting out of small business or hurting it?

MR. McGUIRE: Yes. This is a serious problem. I am told--I wasn't here--that the only fellow who ever sold this problem was Louis Johnson. He called every Congressman and every Senator into a room and he announced: "Gentlemen, while you are here, there's one for

each of you. There's a telegram going out on an installation in your district that we are closing." Of course he put them in the position, if you will, that "I am not alone. This is for the country."

I don't want to point my finger at Congress, but there is this area that you know about. I'll point my finger at some of our employees. When we decided to close the Naval Paint Factory--and I guess I should add right here that I decided then and there that I wasn't going to try to close the Rope Walk--there were about 44 people down in Norfolk and 44 people out in San Diego, and we went through the doggondest exercise that I have ever been through.

Here was industry hollering that this be done, and I think that they were right, or I wouldn't have done what I did, and they had in California, I think, 2500 plants in the paint business and I don't know how many employees, and they had about the same ratio in Norfolk in Virginia. There was not a word from any of them. The organization of this kind of lobby just frightens the dickens out of me.

The other part of this problem is the one of the associations. I told the President of the Chamber of Commerce one day, when he was in to try to get my opinion on the position of the Chamber of Commerce on the Defense Budget, that they have sure have got a simpler way of analyzing our budget than we have, because apparently they do it in an office over here with some general support from somebody who gives them some ideas. I am not saying they are not sincere. But I said,

"As long as we are so sincere in saving Defense money, why don't you instruct each of your local chambers--Boston, New York, Cleveland--and Podunk--to print on the front page of the paper on January 1 those government installations in your area that you want to close."

And this fellow said to me, "Let's be realistic."

This is a problem. It's part of our system. I think probably you are in this thing on commissions, and people have said that nobody can call up a commission inside government or outside government. Sometimes I wish they'd have this rule in my office.

I don't mean to imply here that there is anything wrong in it, but these people in associations in the political field have constituents or clients and they will do their level best to try to stop a business if it's going to hurt them. This is human nature. But it's a heck of an atmosphere to have to make a decision in.

QUESTION: Mr. Secretary, you mentioned the inefficiency of applying the same amount of attention to cheap items as to expensive ones and said a certain degree of this should be abolished. In the budgetary action in which I have been engaged for several years, we have not been able to sell the analysts on ignoring the cheap items and paying attention to the expensive ones in our budget. I'd like to know how you were able to get people to ignore the cheap items and if S&L could be of any assistance to us in selling our analysts on

putting their attention on the high-priced items.

MR. McGUIRE: I think in all candor that I will have to answer your question by saying that I am not really familiar with the detail of this thing that far down. In our reference I was talking more in terms of the supply management phase of this thing. I will say this to you, that I am very much concerned about the approach of the so-called analysts or money people to the stock funds. For years the stock funds have been treated as a so-called management tool. When I came into the business I asked my three associates in the services about these stock funds, and they had never even seen the reports on them.

My concept of the stock fund is that the stock fund is the comptroller report that should be issued to the management people to help make intelligent decisions and that it is not a place to find extra funds. I have advised Mr. Gates of this philosophy that after we get all through, if we need a couple hundred million dollars more we generate the money in the stock fund, and said that we had better use that for some other purpose. We had better be darn sure in our stock fund that the right items are in there and that this money we got, admittedly, from selling some items we didn't need is used to bring up the proper levels of items we need.

What I am saying simply is, I don't believe in managing stock funds

by money slices up here. I believe in managing stock funds by a knowledge of the items within the stock fund and the requirements for them.

If you have been in the budget business, you know how important this problem is getting to be.

QUESTION: You were talking about the \$8 billion surplus and said that it is going to be \$10 billion or \$15 billion, approximately. Ten months ago we undertook a worldwide inventory and supply project. Is this increase in cost the result of getting rid of the surplus that we found over that continuing period, or is it the result that we are still procuring items we should not, or is it because of the leap frog that is going on in this expensive era? Is that what is causing this increase?

MR. McGUIRE: I would like, if I may, set your question as I see it. What you are asking me is where did this increase come from in the amount of surplus disposal we have. Is that right?

STUDENT: Yes. Why has it increased?

MR. McGUIRE: First of all, I told you that our philosophy of fighting a war has changed. I happen to believe that if we are under an atomic attack we will have to get by with what we own, and if we are going to depend on opening up a factory that will make something six months later, we are going to be in poor shape.

This says you have in your inventories what your requirements are and it also says you've got to know your requirements. I happen to

believe that in peacetime we are going to have a capability to produce, and we should have a basic production capability that will replace the peacetime or limited war usage rate and peacetime consumption and thereby maintain our general war position.

This has brought a lot of this stuff out in the open. Then there is the type of thing where at Harmon Air Force Base you'll have, let's say, an F-86. You've got to maintain stockage on the thing up there. You suddenly change it to the F-104. This was planned, but you can't run out of spare parts until you deliver the 104. You are going to have to have that amount of inventory left there that then becomes surplus.

We made mistakes also in this field. It's a very interesting example. We have a gun known as the M-14 gun. I am not taking any issue with the gun. It's a rifle. We've got about 2.5—I don't know whether it's billion or million--of the M-1's in stock. Anyhow, we've got a lot of them. This gun I think is an excellent gun and it's an improvement on the M-1, but I don't think, candidly, that the difference between the M-1 and the M-14 is going to win or lose a war. I was the one who initiated the procurement. We do this on an orderly phased-out basis. This is not something I've got to get tomorrow morning. I want to achieve it because it does have some advantages in the standardization of the ammunition. Maybe it ought to be limited only to the European areas where we operate and our requirements over there.

Now, these guns become surplus. They're extras. The important real thing behind this, and summing up all those things I said--and I

probably make mistakes, too--like the foot locker case where the fellow transposed a digit and we sent over 30,000 when they wanted 30, or something, to Europe--we now have the capability of identifying this equipment. We now have an acknowledged acceptance of a mission. We are going to get it out in the open and do something about it. I really got clobbered about this when I brought it out. I remember it hit the front page of the Washington papers. This is nothing new. It was there. If you've got an Army saddle, to recall General Wood's famous story, out at some fort out there, since World War I, if you don't get rid of it it's going to be there for World War II and for World War III and for whatever wars we have afterward. You've got to face up to these problems.

If I could summarize what I am trying to tell you, in my business, if we bought a woman's hat and it didn't sell in 10 days we marked it down. The buyer had 10 more days to get rid of it, and I didn't care whether he got rid of it or gave it away. I did care that he sold it, but if he had to, let him give it away and get it out of there. It would create bad morale in the customer's mind, and everything else.

The same is true in the service. We have a discipline now where we are looking at these things more and more realistically and we are doing something about them. It's not all weight, and it's not 2 percent return. Bear in mind that, as you junk battleships or trucks, this example covers the situation.

Seventy-seven percent of the 2-1/2 ton trucks we have in the Army I think are over 6 or 7 years old. Some of these are going to suddenly come at us, and we are going to have to replace them and get rid of them. Do you realize that we've gotten our money's worth out of those trucks, for what we bought them for? But, when we evaluate the disposal of them, we have to report to the public what we paid for them. This is what causes part of the confusion, and it won't be changed, in my opinion, because there are some people who like to keep this merry-go-round going around that way.

QUESTION: Mr. Secretary, I have two questions.

MR. McGUIRE: Let me get my pencil and paper.

STUDENT: With respect to the first question, we have in recent days had a rather interesting recitation of some of the problems that face our first anti-missile missile, and the forecast of when we will get the first prototype and the first ones operational is not a very encouraging one when we consider that we are in a race with the Soviets to see who gets the first one. So question No. 1 is this: What has S&L done, or what does S&L plan to do, in order to accelerate this particular program--I am speaking now of the Nike-Zeus--in order to insure that we will get there first? With respect to the second question, there was a policy directive issued in July that said in so many words that it is the policy of the Secretary of Defense that in all new construction and in existing construction we harden it to provide appropriate

shelters to enhance our ability to survive in the event of a nuclear attack. My question now is: What, if anything, is planned to provide the services with the capability to implement this policy?

MR. McGUIRE: The reason I told you I was going to write this down was because one year I was over here and a fellow got up in the balcony and he had a piece of paper. The only conclusion I could come to was that his question had been written by the Joint Chiefs of Staff.

S&L in the field of Nike-Zeus and in the context of your question has very little to do directly with this thing. I serve on the Ballistic Missiles Committee. Bear in mind that this is a research problem. The big argument here is as to whether or not we have really solved all the problems. I am not really qualified to answer in this area that you are raising.

To the degree that there is some roadblock in priorities and that type of thing, we get into it. We issue priorities and we get into this kind of priorities. That's where our office in this area over there would get into this thing.

As to ~~this~~ policy hardening business, I don't recall the exact words of the thing, but I believe that it was that we should take this into consideration and move toward this direction. We are doing this, for example, right now in our missile areas. We are doing it in some other areas.

But this gets into the chicken and egg question, as to which you do first in this thing. Also I would like to point out to you that there is a debate going on right now on this policy hardening business. First it was 75 and now they believe that 125 pounds per square inch will come out of what they thought would be 75, and it won't cost any more money. I really believe this, so long as they don't let the contractor know it. If they ever let him know it, he is going to charge some more money for what he puts down there. Now they are going to 300 and they are talking 500, and I have challenged this, because we may reach a degree of, shall I say? relative return on this thing, and we know very little about bomb damage, in reality.

I hope this is not inappropriate for me to say here, Captain, but I have been quite concerned, working at my job, because, as I interpreted all of the deliberations of the military, the general assumption was that 40 million civilians would die in an atomic attack, but no military would be hit. This bothered me, because I didn't have a uniform. I was in the Navy but I resigned from the reserve. I might add that Admiral Austin at Newport last week offered to have a uniform provided to me if I can get to Newport.

This has got to be done by degrees and in the areas where we can most effectively utilize it. We've done a lot in communications. Industry has done a lot in this field. AT&T has done a lot in bypass routing. I don't think we can ever assure ourselves that if we harden everything

that everything will stand up. This gets down fundamentally to a basic point, I think. That is, if you try to harden everything, we would have a cost which would probably prohibit us from buying any weapons.

Now, harden everything if you will, and have no weapons, and I am not sure where we sit in this game. I think the first thing is the weapons in the order of priority. I don't think there is any overall answer to your question. I am not sure, by the dead silence around here, Captain, that I have answered your question satisfactorily.

STUDENT: It really had another part. The question had to do with fallout shelters as well.

MR. McGUIRE: Well, this has some tremendous political implications that you can appreciate. I know what I have told my wife. I've got all these instructions as to what I should do, and what routes to go. I told her to stay right where she is and not to move. I personally think that the cost of fallout shelters is going to have to be solved by some public or individual contribution. I think that if the Government has to take on this tab it's going to be so big that somebody will give you the same argument I just gave on the weapons first. The Department of Defense will be the first one to say, "Look. You can't raid the Treasury ~~over~~ there to do this. We've got to get the weapons. They come first."

There's someone, I know, from OCDM. I see him sitting down there.

I would prefer, with all due respect, to bow to his judgment and to have him answer this question. It has not been solved, to my knowledge. Am I right on that, John?

STUDENT: I think you put your finger on it, Mr. Mc Guire.

MR. McGUIRE: You mean keep quiet.

QUESTION: There has been a lot of discussion here in our lectures on BOB. It has been subject to much ridicule and criticism. Do you feel that the reviews we go through, with BOB on one side, are the result of unwarranted intervention on their part or perhaps a lack of decision-making or lack of a coordinated decision or position on the part of the Department of Defense?

MR. McGUIRE: I don't think it is. First of all, remember this: The final decision in this area has got to be made by the President. I have always looked at BOB as part of the President. It is his arm. In business we have this kind of exercise. I think what bothers you is when the fellows get in and tell you how to fight a war and get into some fields that I think is stretching the responsibility that they have to quite a degree. I will be specific about this. I will make a hypothetical case. If they got into the debate about whether we should have Polaris submarines or not, it seems to me that this is for the Chiefs and the Secretary of Defense to establish for the President. If they want to challenge what the costs are or that type of thing, I think this

is perfectly all right.

On the other hand, I must admit, sitting where I sit, that the BOB has forced some issues which I didn't have the capability, apparently, without getting arbitrary—and I try not to run my job that way--to get done, and I think they should have been done. I think we brought them into the picture by our defensive attitude on this thing and on a good many of these things. I can give you several examples. The communications field is one. By opening this up so that we know what we are talking about to them openly, they don't have to go around and make some of these crazy inquiries, that you are talking about.

When they are informed, if they are wrong, I am in a position to tell them, but I ought to know why they are wrong.

CAPTAIN MURRAY: Mr. Secretary, thank you for your lecture this morning. I know that this body out here this morning represents a large segment of the American public that appreciates your very unselfish public service. Thank you very much.

MR. McGUIRE: May I say just one thing? I am very appreciative of this opportunity to be here. I think that in Defense my office probably has a greater interest in this school than most areas. I always welcome the opportunity to come over here. I have tried to encourage my people to come over here. And I appreciate very much nobody's asking me about dependents. I don't know the answer on the thing. It's not my area.