

Addresses -
A. J. C.
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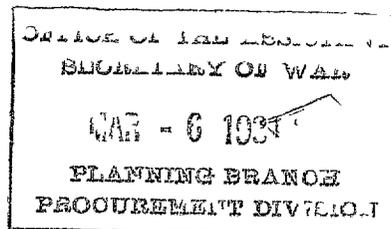
THE ARMY INDUSTRIAL COLLEGE
WASHINGTON, D. C.

Course 1930-1931

"ACTIVITIES OF THE ASSISTANT SECRETARY OF
WAR IN CURRENT PROCUREMENT"

Lecture by

Lieutenant Colonel J. K. Crain



February 24, 1931.

LECTURE

"ACTIVITIES OF THE ASSISTANT SECRETARY
OF WAR IN CURRENT PROCUREMENT"

by

Lieutenant Colonel J. F. Crain
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Before The Army Industrial College,

1. Current Procurement is the father of War Procurement

This father has the advantage of ordinary mortals in that he knows his child is to become a giant. Whether this giant child will become a prodigy or a failure, however, will depend largely upon the manner in which the father himself develops, and the example he furnishes to the son.

2. In preparing this paper the question of a historical review naturally arose. At first such a review was omitted as you gentlemen know all about Sections 5a and 9 of the National Defense Act. But in the course of my reading there cropped up several statements that were made in 1919 and 1920 to Congressional Committees working upon the Reorganization of the Army that are not generally quoted. These were so pertinent to the most important features of current procurement that they have been included here. Extracts only from these statements will be read now. When these views were stated the experiences and lessons of the World War were still fresh in the minds of all.

3. "Mr. Greene. That is a detail as to how your policy once decided should be employed. I am speaking about the principle, which goes to production, as contrasted with use. Why should the Army be hampered by having to divide its energy between the mercantile and the industrial side of the cause and the actual military use of the thing. The thing should be bodily separated into two fields which are, in civil life, found to be useful. For instance, in a great concern like a railroad corporation the supply end is handled by men who do not actually use the supplies, and they are trained as supply agents and men who produce these things for the use of the shops, or whatever other division as transportation finds it necessary to use them in. Why could not the War Department organize itself somewhat along the same line?" (Page 71, House Hearings, Army Reorganization 1919-1920).

"Mr. Greene. I have been led to suggest these things because it is a matter which has been a topic of a great deal of conversation in the last two years in the House among the members of the House in their private conversation. You even now admit some part of that policy by employing civilians, and it seems to me if civilians were given that function under the same obligations to the War Department as the military end of the department is under, you would accomplish the work and have ready all that you know you must have in time of war, and that will be done through the cooperation of great numbers of industrial and commercial men with the War Department." (Page 75, House Hearings, Army Reorganization 1919-1920).

These are only a few of the views expressed upon this important topic, but the final result was the addition to the National Defense Act of Section 5a. It has been stated at times that Section 5a was slipped into the National Defense Act by one or two individuals. The above quotation from Mr. Greene is given to show that on the contrary Congress had considered the problem carefully and at length, and that the present set-up reflects their carefully matured judgment.

"Sec. 5a. Hereafter, in addition to such other duties as may be assigned him by the Secretary of War, the Assistant Secretary of War, under the direction of the Secretary of War, shall be charged with supervision of the procurement of all military supplies and other business of the War Department pertaining thereto and the assurance of adequate provision for the mobilization of materiel and industrial organizations essential to war-time needs. The Assistant Secretary of War shall receive a salary of \$10,000 per annum. There shall be detailed to the office of the Assistant Secretary of War from the branches engaged in procurement such number of officers and civilian employees as may be authorized by regulations approved by the Secretary of War. The offices of Second Assistant Secretary of War and Third Assistant Secretary of War are hereby abolished.

Under the direction of the Secretary of War chiefs of branches of the Army charged with the procurement of supplies for the Army shall report direct to the Assistant Secretary of War regarding all matters of procurement. He shall cause to be manufactured or produced at the Government arsenals or Government-owned factories of the United States all such supplies or articles needed by the War Department as said arsenals or Government-owned factories are capable of manufacturing or producing upon an economical basis. And all appropriations for manufacture of materiel pertaining to approved projects which are placed with arsenals of Government-owned factories or other ordnance establishments shall remain available for such purpose until the close of the next ensuing fiscal year.

To aid the Secretary of War in fostering military aeronautics, and to perform such functions as the Secretary may direct, there shall be an additional Assistant Secretary of War who shall be appointed by the President, by and with the advice and consent of the Senate, and whose compensation shall be fixed in accordance with the Classification Act of 1923. Added by section 9, act of July 2, 1926 (44 Stat. 784) "

The evident intent of this section was to emphasize the importance of the industrial side of national defense and to place a man trained in the business world at the head of that particular function of the War Department.

There also appear in these hearings the following views of

General Dawes

"Senator Chamberlain. You think the General Staff should have nothing to do, as a central body, with the purchasing agencies?"

"General Dawes. Yes, I think they should have nothing to do with actual purchases. For instance, the central plan, as our staff officers on this side have talked it over with me, was evolved over here under tremendous emergency and I am wonderfully impressed with its accomplishments, but in my judgment it would not have worked over there. You had more normal conditions here. You had large supplies, your railroads were operating more normally, and it was possible to apply the business principles of concentration and consolidation over here in a way that it was not possible at all over there.'
(Page 1709, Senate Hearings, Reorganization of the Army).

"Senator Chamberlain. Then, the General Staff over there confined its operations to the functioning of the Army itself?"

"General Dawes. To the functioning of the Army itself, and, again, the General Staff had control of the chiefs of the services.

There is one thing, and I conclude that you have all seen these things and called attention to them, having kept up somewhat with the Congressional Record and with the progress of debates. At present, with each service, having the right to secure its own supplies, you have, in effect, and we had when we went over there into Europe, eight water-tight compartments into which each service bought and took charge of the supplies which it deemed necessary for it to carry out the program imposed upon it by the commander in chief. That is a questionable process even in normal times, but when you have got an insufficient supply of material, it is evident there is need for somebody who has a bird's-eye view of all the supplies of the Army at the same time, and if the Engineers have more shovels than they actually need and the Ordnance Department have not got any shovels, instead of having the Ordnance either requisition those shovels from the United States - that is only one answer - or buy them in an over-bought market, they should be transferred from the Engineers to the Ordnance.

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"Here you combat human nature. Take a chief of the Engineers, for example, who has been thrifty and forehanded and sure to succeed in his task allotted to him by the commander in chief, if somebody does not rob him, and here is somebody, say in Ordnance, who has been shiftless and shortsighted. This Engineer chief will fight like a wild-cat to keep his service successful from his standpoint and to prevent his supplies from going over to the Ordnance. But to have the Engineer Department succeed as a unit, constant fight all the time between the services. They do not think in terms of one Army, but in terms of eight separate services. The great commanding general of the Services of Supply, General Harbord, used to see that it was done, and over there he thought in terms of emergency all the time.

Now, the law in some way, and you gentlemen know how, should be amended so as not have those service compartments so water-tight that when your army gets over in the field - and that is the important thing, to have it operate right in time of battle - that there can be a better exchange of supplies between the services, more recognized interdependence, so to speak, and more thinking in terms of a single army instead of in terms of eight separate services." (Page 1711, Senate Hearings, Reorganization of the Army)

These views, together with other testimony, probably led to the mandate in Section 9 of the National Defense Act that "the Quartermaster General, under the authority of the Secretary of War, shall be charged with the purchase and procurement for the Army of all supplies of standard manufacture and of all supplies common to two or more branches, but not with the purchase or the procurement of special or technical articles to be used or issued exclusively by other supply departments * * *"

The law does not make a distinction between peace and war. If the Quartermaster buys certain items in peace, he should buy them in war.

These two provisions, the placing the supervision of procurement under The Assistant Secretary of War, and the charging the Quartermaster General with the procurement of commercial articles

used by two or more branches, are the significant changes made in Army organization by the amended National Defense Act insofar as current procurement is concerned.

4. In reading over a report submitted by a Committee on Problem 29, Interbureau Procurement, of the Class of 1926 of this College, an excellent study, there is found on page 5 the following statement

"2.6 The limitation in Section 9, above referred to, would not have been enacted had there been a supervisory agency over the Procurement Branches before the war, as at present."

This statement is quite flattering to the Assistant Secretary of War and his office, but I am constrained nevertheless to challenge it. The eight Supply Services are today eight water-tight compartments to nearly the same degree as they were when General Dawes made his statement to the Senate Committee that was quoted earlier in this paper.

I will read an advertisement issued in the past week, and ask you gentlemen what Supply Service issued it

"213 - FURNITURE - 50 dining tables, 350 dining chairs, 4 buffets, 25 tray stands, 2 dressing tables, 2 straight chairs, 12 spools, 3 mirrors, 5 sofas, 14 occasional chairs, 4 library tables, 8 club chairs, 4 wing chairs, 4 floor lamps, 4 table lamps, 2 bronze torcheres, 1 curtain, 2 occasional tables, 2 sets end tables, and 8 end tables, cir. 90, bids Feb. 27."

The feeling exists that if facilities are allocated to supply services the evils complained of in the last war will be cured. Is it probable that so vast a plan put into operation upon short notice

and to be executed by men, many of whom will be unused to the procedure to be followed, will function smoothly and without derangement?

"The best laid plans of mice and men gang aft agley."

Take the battle of Murfreesboro in the Civil War. Each commander conceived an excellent plan of battle. The initial development of the plan was as scheduled. But because of conditions which were encountered, the battle developed into a kind of merry-go-round, and the final phases did not resemble the original plan.

Think of The Assistant Secretary of War, or the Priorities Committee, or any other control committee having to check with from two to six agencies in the War Department alone, instead of with one, upon the same item of supply. Consider the burden upon the higher agencies in an emergency. After spending two days settling the demands of one supply service to be confronted with the same problem for a second, a third, possibly a fourth!

The initial requirements and allocations may be absolutely correct, but we all know that some of these will change when, or soon after, war starts. Consider the additional administrative action required of higher authority for each supply service of the War Department that asks for readjustment on the same item.

5. All the activities of the War Department seek two objectives. One is the efficient and economical performance of the current task. The second is to see that the performance of the current task will add to the state of preparedness of the nation for war.

To accomplish the first objective mentioned above, the aim of current procurement is to get the maximum return for each dollar spent.

The successful attainment of the first objective automatically aids in reaching the second.

But additional action is necessary to make the chief contribution in this direction.

This additional action is to establish policies and create organizations that will stand the strain of passing from a peace status to a war status without breaking, that will reduce to a minimum the confusion that will occur when the procurement problem is suddenly increased many-fold by the declaration of war.

There are many obstacles to the carrying out of the additional action just mentioned. Peace time procurement is subject to laws that will be materially modified in war. Economy is the chief consideration in peace, and rightly so, time is the all important factor in war. In peace open competition is mandatory, and a successful bidder may be located anywhere in the United States. In war, as you know, it is planned to negotiate contracts with manufacturers upon a prearranged schedule. There are many other peace time restrictions, such as the life of appropriations, etc.

On the other hand, there are numerous points of similarity in peace and war procurement and in those phases current procurement should be, and is, laying a foundation for war procurement. If peace time procurement is defective, war procurement will be worse. When the gun is fired and the flag raised to the peak to announce that M-day has arrived let us not expect some wizard to wave a wand and effect a miraculous change.

When I was a cadet one of our tactical instructors divided the cadets for target practice as follows "Cadets who have fired at 500 yards, step over here, cadets who have not fired at 500 yards, stand over here, those who have done neither, come with me!"

When the procurement war plan is to be executed the personnel will be those who have engaged in current procurement for the Army, those who have engaged in current procurement in industry, and those who have done neither.

Will those who come from the business world accept a departure from the approved principles of the commercial world? If the plan shows any signs of failure, they will not. They will force changes - perhaps set up a P.S. & T. and the remedy will be worse than the original plan.

General Dawes has been cited as opposing the application of business principles to the Army. Please remember the quotations read earlier in this talk from General Dawes' testimony before Congress "It was possible to apply the ^{business} principles of concentration and consolidation over here in a way that it was not possible at all over there."

The preparation of specifications and especially the testing of specifications by using them are valuable assets to the future. The development of proper methods and standards of inspection are equally important. Without proper specifications and without sound inspection, it is difficult to procure satisfactory articles either in peace or in war. A weakness in either of these two links in the

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chain of procurement causes lots of grief in our current business. Time and money permit the eventual correcting of the troubles that these two failures bring. But in war time is at a premium, and may not be available. A few current examples will be given later.

The military side of the Army develops its tactics and equipment by means of the peace time Army. It trains its officers to fit them for the jobs they will fill in war. They have excellent service schools, and there is a struggle to get detailed to them. In the supply services the exigencies of their normal work often result in a failure to use current procurement as a test of war plans, and a failure to visualize the fact that the supply personnel should also be trained for the work they must perform in war.

As to schools we have this most excellent college supplemented by a few students at the Harvard School of Business.

6. The approximate amount of money expended annually by War Department agencies classed as military procurement is between \$90,000,000 and \$100,000,000 dollars. The division of this by Services is shown upon the chart (Exhibit 1).

In war all of the amounts will be increased many times.

In current procurement the agencies that perform the actual duty of purchasing are divided into two classes

Those under Corps Area and Department Commanders, and those directly under the War Department. The agencies under control of Corps Area Commanders are numerous and in general each spends a relatively small sum although the aggregate of these amounts is large and is probably one-third of the military expenditures. Supervision over these many and scattered activities is difficult.

The approximate amounts spent annually by the principal procuring agencies operating directly under the War Department are shown in chart (Exhibit 2).

The chief opportunity for The Assistant Secretary of War to execute his current procurement mission lies in these latter agencies. These are the instruments which he can use to develop and test policies just as the General Staff use the Mechanized Force and other selected units in developing tactics and equipment.

The Assistant Secretary of War does not operate and he does not wish to operate. He formulates policies that will coordinate the purchasing activities of the various Supply Services, and that will improve the conduct of business of the War Department. This improvement looks to obtaining proper supplies at correct prices, to maintaining good relations with the business world, and last - but not least - preparing for the war-time problem. The Assistant Secretary of War does not hamper the initiative of the Supply Services, but he does endeavor to improve the teamwork of the whole group, as coordinated effort in this field as in any other is superior to disjointed efforts - however successful each of these may be.

7. There are two distinct phases in the supervision of current procurement, viz the annual procuring of funds, and the spending of the money when received.

Money is the key to the ability of a Supply Service Chief to execute his mission.

The first phase requires an active participation in the action required to obtain the funds from Congress, and in the preparation of a program of expenditures of these funds.

1 out 1

The second phase requires continuous surveys of the procurement operations of the supply services, including investigations as to (a) compliance with legal requirements and procurement policies, (b) methods employed and prices paid by the War Department as compared with the business world, (c) the quality of supplies purchased and (d) the availability of supplies at the time and place required.

To accomplish all of these tasks (and others of various kinds) there are in the office of The Assistant Secretary of War four officers and eight civilian clerks. These are organized into three sections, a Fiscal Section, Procurement Control Section, and a Statistical Section.

A member of the Fiscal Section sits on the Budget Advisory Committee of the War Department which prepares the annual budget for the Secretary of War. The annual budget expresses in a general way the War Department program for the year, in certain respects it is quite specific.

The function of the Procurement Control Section is to examine circular proposals, abstracts of bids, and open market purchase reports to see that laws and regulations are being followed, that supplies are purchased at reasonable prices and in a business-like manner, and that consolidated purchasing, where profitable, is being undertaken.

This last is the most debatable feature of current procurement and the one upon which the greatest variety of opinions exist. An exact solution would require a study of each item which is impossible.

It should be noted that some of the strongest objectors to interbureau procurement are advocates of a greater use of the General Supply Committee catalogue. And the General Supply Committee contracts are consolidated procurement pure and simple.

The Assistant Secretary of War stated in his last Annual Report that he intended asking Congress for a stock fund with which to

- (1) Procure supplies in quantities sufficient to obtain price reductions.
- (2) Make seasonal purchases.
- (3) Provide a stock of articles in general use by the Army so as to expedite issues when required.

The present practice of most of the Supply Services on quantity purchasing is that an appreciable economy must be shown before it is resorted to. The burden of proof is upon the consolidated purchaser.

The expressed intention of The Assistant Secretary of War to obtain a stock fund from Congress means that he proposes to cause a reduction in the number of small purchases now being made.

The Statistical Section arranges information received from other departments, trade journals, etc., and publishes monthly a "Current Procurement News Digest" that is distributed to the Supply Services. This has received flattering comment from various sources and it should be of benefit where the quantities purchased are considerable.

This Section also prepares quarterly progress charts for The Assistant Secretary based upon the reports of Chiefs of Services as to the status of their procurement programs. Only items of major importance are reported upon. Here again Current Procurement is laying a basis for War Procurement.

8. There will now be given a few examples that have come to the attention of The Assistant Secretary of War's office that afford practical illustrations of the principles previously touched upon. The names of the offices involved will not be given.

The first case is as follows

A procuring agency purchased an automobile upon specifications that read something like this

"One touring 5 passenger sedan, expenditure not to exceed \$1599, car must be of rugged, substantial construction to stand up under exceptionally hard service it will receive, capable of a high rate of speed for an indefinite period with smooth and easy operation of the engine, without overheating or noticeable vibration - carry four passengers and driver."

Bids ranging from \$635 to \$1565 were received. The car accepted was taken at a price \$124 above the factory price.

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interested business man who saw this specification would form a poor opinion of Army purchasing.

Example 7

A recent circular proposal asked bids on 38 New Departure ball bearings A0211 and A0220 and 152 Radial ball bearings 20 and 25 m/m. There was no other description except the following "Note Owing to the extreme accuracy of the instrument for which these ball bearings are required, it is requested that they be selected both for accuracy and noiselessness." The award was made to the lowest bidder.

Example 8

One station buys tool steel on a specification calling for "Tool steel, carbon", with size desired. The successful bidder has informed this office that from experience he knows the proper price range to become low bidder, and he then furnishes steel that gives him a fair profit on the transaction.

The lack of proper specifications is sometimes overcome by the use of a trade name with unfortunate results, for example -

Example 9

A popular cleaning material is largely bought by trade name by Army buyers. The price paid ranges from 13 to 16 cents a pound. This material is practically 100% a chemical which sells for about four cents a pound, a loss of 10 to 12 cents a pound to the Government.

A final example will illustrate the failure to properly inspect materials to see that they were actually what was wanted.

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Example 10

A station called for 4500 cross ties, Red Oak or ^{Sap}White Oak to be treated with 10 pounds of creosote per cubic foot of wood.

A jobber obtained this contract and competitors registered a complaint saying it was impossible to meet the specifications at such a low price. Investigation developed that the only inspection was a count to see that the correct number of ties had been received.

9. In closing I wish to state that the greater part of current procurement is excellently performed. Most of the cases that can be criticised come from stations that spend the least money. These examples are not given as a criticism. They are given to throw some light upon the problem upon which you are engaged, and to impart a faint idea of the great scope and many ramifications and pitfalls of Current Procurement. Also because it is a reasonable assumption that the defects of peace time procurement will be multiplied many times in the stress of war, and similar and more costly defects can only be avoided by building up a sound organization in peace. The combat troops will get some training before going into battle. The procurement agencies begin to fight on M-Day.

Office of the Assistant Secretary of War, October 28, 1929
 MILITARY PROCUREMENT BY SUPPLY BRANCHES IN PERCENT OF TOTAL FOR THE ARMY, FISCAL YEAR 1929.

Total Procurement (100%)

Q. M. C.
64.55 %

Air Corps
23.50 %

Ordnance Department
(6.15%)

Signal Corps,
(2.83%)

Corps of Engrs,
(1.44%)

Medical Dept.
(1.05%)

Chemical Warfare Service
(.44%)

Coast Art'y. Corps
(.04%)

	Total Funds	Expended for Procurement less Personal Services	Percent of Total Expended for Procurement	Expenditures not included under Procurement
Q. M. Corps	\$84,030,594	58,758,618	64.55	27,021,976
Air Corps	28,960,157	21,395,166	23.50	4,469,038
Ordnance Dept	13,458,953	5,596,334	6.15	7,504,267
Signal Corps	3,187,274	2,575,814	2.83	833,643
Corps of Engrs	2,136,417	1,313,105	1.44	940,943
Medical Dept	1,386,847	963,942	1.05	422,905
Chem W.F Service	1,340,780	398,288	.44	942,492
Coast Art'y Corps	787,444	32,419	.04	14,360
Totals	\$135,308,466	91,033,666	100.00	42,149,624
Total expenditures for Procurement				\$91,033,666
" " " Non-"				42,149,624
" unobligated balances				2,125,156
				<u>\$135,308,466</u>

Figures obtained from Budget Statement No.12, Office, Chief of Finance and offices of Chiefs of Branches

Total for all procurements, fiscal year, 1929, expended at the following field agencies.

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QUARTERMASTER CORPS

New York General Depot	\$6,466,165.89	
San Francisco General Depot	4,579,443.59	
*8th Corps Area General Depot	3,573,507.32	
Washington General Depot	1,759,317.99	
Boston Q. M. Depot	618,857.53	
Chicago Q. M. Depot	2,240,584.86	
Jeffersonville Q. M. Depot	615,253.77	
Holabird Q. M. Depot	2,293,483.38	
Philadelphia Q. M. Depot	7,420,662.61	
St. Louis (2nd and Arsenal St.).. . . .	<u>1,121,019.70</u>	30,688,296.55

ORDNANCE DEPARTMENT

Frankford Arsenal	3,181,544.31	
Picatinny Arsenal	672,392.27	
Raritan Arsenal	303,428.14	
Rock Island Arsenal	401,710.70	
Springfield Armory	713,114.44	
Watertown Arsenal	299,752.99	
Aberdeen Proving Ground	<u>186,865.49</u>	5,758,808.34

AIR CORPS

Wright Field	14,916,542.58	14,916,542.58
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ENGINEERS

Office, Chief of Engineers	615,000.00	615,000.00
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CHEMICAL WARFARE SERVICE

Edgewood Arsenal	605,250.79	605,250.79
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MEDICAL DEPARTMENT

New York	805,950.62	
St. Louis	104,943.86	
San Francisco	<u>62,128.52</u>	973,023.00

SIGNAL CORPS

New York	1,855,925.48	
Chicago	231,895.44	
San Francisco	<u>65,162.03</u>	2,152,982.95
		55,709,904.21

*Data for September 1928 missing, amount estimated at \$175,000.00

UNDER GENERAL SUPPLY COMMITTEE CONTRACTS

Attention is invited to the difference between the "definite quantity" and "additional quantity" prices listed in the General Schedule of Supplies. The "additional quantity" price for tires averages approximately 30% higher than the "definite quantity" price and in some cases the variation is over 85%. The difference between these prices is indicative of the advantage to be secured in lower prices by purchasing in large or economic quantities. The "additional quantity" price is that quoted for miscellaneous orders of varying quantities. The "definite quantity" price is that quoted for a definite quantity for definite delivery.

When purchase of small lots of tires is contemplated, the additional quantity price may be advantageous. But, when the quantity is large or when small lots can be consolidated, it is usually preferable to request bids by circular. Every effort should be made, by anticipating needs and through consolidating requirements, to purchase in economic quantities.

REPRESENTATIVE TIRE PRICES

General Schedule of Supplies - Supplement, Tires and Tubes - Class 17.
Third Quarter Fiscal Year 1931

Size of Casings & Tubes	Description of Casings	Casings				Tubes	
		Regular Prices		Heavy Duty Prices		Def	Add.
		Definite	Additional	Definite	Additional		
28 x 4 75-19	Balloon casing	3 09	4 33	3.92	5.49	.50	.70
28 x 5 50-18	" "	4 23	5.92	4.85	6.79	.61	.85
29 x 5.50-19	" "	4.25	5.95	4.68	6 55	.62	.87
31 x 6.50-19	" "	5 65	7 91	6 56	9.18	.72	1.0
32 x 6 00-20	" "	4.95	6.93	5 63	7.88	.71	.99
32 x 6	S S cord casing 6" rim			17 18	24.05		
34 x 7	S S. cord casing	25 00	32 20	23 00	32 20	2 19	3.07
40 x 8	" " "	35.00	49 00			3 18	4.45
42 x 9	" " "			47 52	66 53	4.11	5 75
34 x 7 50-20	Balloon casing bus type	16 61	23 25	16 61	23 25	2.00	2 80
38 x 9 75-20	Balloon casing motor coach			35 91	50 27	3 06	4 28
36 x 8	S S airplane casing	Definite	3 62	Additional	20 53	Casings	
		"	1.81	"	3.62	Tubes	
40 x 10	" " "	"	20 88	"	34.53	Casings	
		"	2 89	"	5 51	Tubes	

NOTE Above prices are quoted for purposes of illustration - tires and tubes generally being purchased as Group A items See AR 5-300