

GOVERNMENT COMPETITION WITH INDUSTRY

Time For A Change

Aerospace Industries Association of America, Inc.

1725 De Sales Street, N.W.
Washington, D.C. 20036

Electronic Industries Association

2001 I Street, N.W.
Washington, D.C. 20006

GOVERNMENT COMPETITION WITH INDUSTRY

TIME FOR A CHANGE

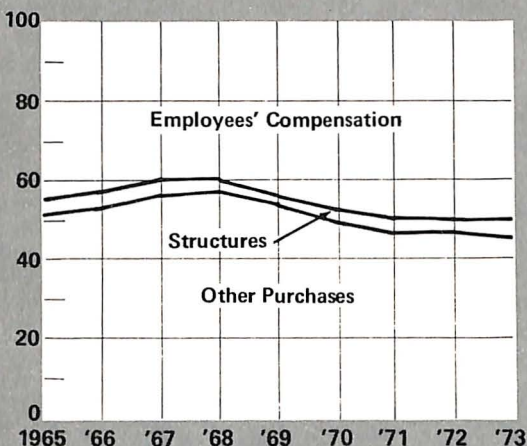
Foreword:

The primary function of Government is to manage the affairs of the nation. On the other hand, the commensurate obligation of the private sector is to support national policies aimed at ensuring the health and welfare of the nation and its citizenry.

To that end, private enterprise in this country has historically accepted the primary responsibility of supplying goods, jobs, and services to all sectors of our national economy. One justifiable exception to this division of responsibility has always been the bureaucratic cadre formed for the purpose of administering various government policies at the national, state and municipal level. In the last decade however, there has been a distinct and subtle shift on the part of the Government away from the traditional reliance on the private sector for the needed goods and services.

TOTAL FEDERAL GOODS & SERVICES
By Category of Expenditure
1965-1973

Percent



Source: *Survey of Current Business*.

This chart illustrates the fact that employee compensation has now reached one-half of the total Federal dollars used to provide the goods and services needed by Government and that reliance on the private sector has significantly diminished. This shift has unfortunate consequences for the nation for several reasons:

- The trend is contrary to the often enunciated and long established policy of the Government.
- The trend requires the Government to obtain more and more of its goods and services without the benefits of competition.
- The trend deprives the private sector of the business and capital base needed for necessary facility expansion and employment.
- The trend, particularly in the area of research and development, erodes the national asset of the technological capability of the private sector and the ability of the nation to compete for world markets.
- The trend substantially reduces the effect of Government and industry policies designed to combat inflation and improve the national economy.

This paper will examine the history of national policies and the value of reconfirmed commitment to reliance on the private sector for needed goods and services. It recognizes the need for some organic capability within the various Federal agencies—the question is one of degree. It is in this context that the issue of government competition with industry is examined.

POLICY AND IMPLEMENTATION

The value of maintaining a competitive private enterprise economy has long been recognized by economists and the Government. Accordingly, Congressional studies and commission reports over the past forty years have established and supported the policy that the Government shall rely primarily on the private sector for its goods and services. Successive executive actions have enunciated that policy and called for its implementation.

It is essential to a clear understanding of industry's concern with this subject that the long standing nature of this fundamental national policy be set forth. This is not a special pleading for a revision of public policy on behalf of a narrow self-interest group. It is rather a plea that existing policy be recognized and followed. The fact that this policy—and the national interest—are not being adequately supported is the more remarkable in view of the extent to which the subject has been examined and the policy reaffirmed over a period of nearly four decades.

Competition with the private sector by Government agencies has been a cause for grave concern for many years. During the past three decades encompassing World War II, the Korean conflict, and the Vietnam action, the exigencies of the times have led to expansion of Government in-house activities as well as mobilization of industrial capability. Often these Government activities were not cut back after the original need passed and most industry facilities

returned to civilian requirements. Consequently, commercial organizations in industry today are not only competing more fiercely with each other for the current lower level of Government requirements, but find themselves competing with extensive Federal in-house activities as well.

HISTORY OF GOVERNMENT POLICY

The first detailed inquiry into this matter was made in 1932 by a special committee of the House of Representatives. Later studies of various aspects were made by the Senate and House Appropriations Committees, the House Armed Services Committee, the Senate and House Committees on Government Operations, and the Senate Select Committee on Small Business. Further studies were made by the House and Senate Committees on Government Operations, and by both the First and Second Hoover Commissions.

The Second Hoover Commission in 1955 presented 22 recommendations aimed at eliminating or lessening Government activities in competition with the private sector. In that same year, the Senate Committee on Government Operations introduced a bill to write the policy into law. Action was postponed, however, upon testimony from the Bureau of Budget director that the Executive Branch had a program under way to implement the policy administratively.

On January 15, 1955, the Bureau of the Budget had issued Bulletin 55-4, announcing to heads of executive departments and agencies that:

“It is the general policy of the Administration that the Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary channels . . . Exceptions to this policy shall be made by the head of any agency only where it is clearly demonstrated in each case that it is not in the public interest to procure such product or service from private enterprise.”

This directive required agencies to review their in-house commercial and industrial activities to determine which should be continued and which terminated in keeping with the general policy. It required regular reports giving status and remedial action.

Bulletin 55-4 was superseded in February 1957 by Bulletin 57-7, which set up a procedure for terminating Government commercial activities and a means of controlling new ones. It was superseded in September 1959 by Bulletin 60-2, the stated purpose of which was to clarify its predecessors and to provide for evaluation of all Government commercial and industrial activities not previously reviewed. Bulletin 60-2 also specified the factors that might justify an

agency in producing goods or services for its own use: (1) national security, (2) disproportionately high costs from industry, or (3) clear unfeasibility.

On March 3, 1966, the 1959 directive was canceled and replaced by BoB Circular A-76, which is currently in effect under OMB administration. Circular A-76 established new criteria for continuing or terminating in-house activity. It states:

"2. Policy—The guidelines in this Circular are the furtherance of the Government's general policy of relying on the private enterprise system to supply its needs. . . .

"In some instances, however, it is in the national interest for the Government to provide directly the products and services it uses."

Circular A-76 further provides that a Government commercial or industrial activity may be authorized to provide goods or services only under one or more of the following conditions:

- "a. Procurement of a product or service from a commercial source would disrupt or materially delay an agency's program.
- b. It is necessary for the Government to conduct a commercial or industrial activity for purposes of combat support or for individual and unit retraining of military personnel or to maintain or strengthen mobilization readiness.
- c. A satisfactory commercial source is not available and cannot be developed in time to provide a product or service when it is needed.
- d. The product or service is available from another Federal agency.
- e. Procurement of the product or service from a commercial source will result in higher cost to the Government."

THE INTENT OF THIS A-76 POLICY STATEMENT *SEEMS* CLEAR—THAT THE *RULE* IS TO ACQUIRE GOODS AND SERVICES FROM THE PRIVATE SECTOR, AND THE *EXCEPTION* IS TO PROVIDE THEM IN-HOUSE. THOUGH THIS MAY BE THE POLICY, IT IS NOT THE USUAL PRACTICE.

AN ASSESSMENT OF GOVERNMENT POLICY IMPLEMENTATION

Many Government agencies are in effect ignoring the Government's long standing policy of reliance on the private sector for necessary goods and services. They conduct many in-house activities that compete with private industry—particularly the defense and aerospace industries. Continuation of these activities is rationalized in many ways, including use of a dual standard in cost comparisons that fails to account for all immediate and long term costs and other disadvantages inherent in direct Government provision of goods and services.

The result of this practice has been a growth of Federal employment that inflates the national budget. This unnecessary expansion of Government activities undercuts the basic role and function of private business in the U.S. and erodes one of our most valuable assets—the nation's private technological capability.

Areas in which Government competition are most widespread include the service and support industries, particularly in the maintenance of facilities and equipment. In addition, certain Government agencies, having acquired facilities and manpower beyond their needs, are now in effect "selling" to other agencies such services as printing, research and development, computer services, programming, and transportation, in order to keep themselves in "business."

In a special report to OMB in 1971, requested by the Commission on Government Procurement, Executive Branch agencies reported 18,618 in-house activities providing a product or service available from private industry, with a total capital investment of \$10 billion and annual operating cost of \$7 billion. The significance of these figures is increased by considering the areas that are not included—all activities providing a product or service to the general public, those excluded by agency regulations (e.g., all overseas activities, DOD laboratories, schools, health services, warehousing, etc.) and those omitted by local interpretation. The activities which were inventoried and reported to OMB include a wide variety of products and services, such as: aircraft and automotive repair, road construction and maintenance, photographic services, printing and reproduction, bus service, communications, clothing manufacture, export packing, laboratory testing, translation services, instrumentation fabrication, ADP and key punch services, laundry and dry cleaning, and architectural and engineering services.

Moreover, there is now a distinctly defined trend of Government expansion into such significant areas of private sector competence as the engineering, design and development of new products and systems, prototype fabrication and production, and overhaul and repair of hardware produced by industry.

EXCEPTIONS IN CIRCULAR A-76

Disregard of the general policy is made possible by exceptions taken under loose interpretations of Circular A-76, which allow a Government agency to justify nearly any course of action it may choose. Agency directives and implementing instructions interpret and elaborate Circular A-76 in such a way as to reverse its intent in some cases—often causing bias not for, but rather against, reliance on the private sector.

A frequently used justification is the statement that procurement from a commercial source would "disrupt or materially delay an agency's program," but this statement is rarely supported by any evi-

dence that such disruption is likely to result. "Mobilization readiness" is also used widely in the Department of Defense, but again without any supporting documentation.

Industry concern over inequitable cost comparisons is based more on anticipation of their effect if the other loopholes are tightened than on actual use to date. As long as continuation of current Government commercial and industrial activities can be justified by citing one of the first three exceptions, that is the easiest course and the one that will be followed. If more compelling arguments are required to support these exceptions, relative cost will be used more extensively. Cost comparisons are time-consuming, but generally support the in-house alternative because Government costs are computed on the basis of incrementally added costs of labor and material. Although directly contrary to policy intent, these cost guidelines are specified in Circular A-76. Allocation for many normal overhead items, such as full cost of Civil Service retirement benefits, general and administrative expenses, and facilities amortization are not made. These very real costs to the Government and the taxpayer go unreckoned and ignored, as does the loss of state and local taxes that would be paid by private industry.

The resulting decisions for in-house performance of commercial and industrial functions denies the Government the benefits of the competitive private marketplace and increases the real costs to the taxpayers, while reducing the industrial tax base.

The movement of work to the Government sector during the decade from 1962-1972 has been an important factor in increasing the Federal Government work force. This occurred during a period of reorientation of national priorities and increasing Federal expenditures, and was accompanied by rampant inflation.

An agency of the Executive Branch has itself noted this policy discrepancy. The Department of Commerce published a study of Circular A-76 implementation on January 4, 1972. A portion of the study report is quoted below:

"A-76 requires government cost comparisons. This requirement is either ignored or abused in some departments primarily due to the expense of compiling such data. These factors raise two issues with regard to cost comparisons: (1) What costs should be included in any government agency costing evaluation, and (2) should a government agency be a bidding participant when adequate competition exists in the private sector. . . .

"When cost comparisons are made, however, the guidelines pursuant to OMB Circular A-76 dictate that the government should only account for its own out-of-pocket or incremental costs. Private industry, in contrast, is required to fully allocate all direct and indirect costs."

OMB Circular A-76 requires that all "new starts"

be carefully reviewed and approved at a top agency level. Between 1967 and 1972, 64 new starts were officially proposed—45 were approved, 2 were disapproved, and 17 were still pending at last report. It has also been reported that many new activities and expansions which meet the A-76 criteria for a “new start” are implemented without the required review and approval. To obtain capability for such in-house work the military are acquiring special tools, test equipment, training and repair parts—items already available in the private sector.

FEDERAL EMPLOYEE UNION PRESSURES

Proper regard for the general policy by agencies is often made difficult by Federal employee union pressures. These unions naturally want to protect jobs of members and they exert intensive continuous efforts to do just that—often at the expense of private sector unions. The U.S. Civil Service Commission, in its advisory and regulatory capacity, has been generally sympathetic to the Federal employee unions as they assume the dual roles of advocate and plaintiff.

Federal employee unions have taken a broad stand opposing service contracts and contracts for any work that can be performed by Government employees. While they present their argument on the basis that Federal employees can do a better job and at less cost than workers in private industry, their real interest is the preservation and expansion of membership. They have challenged the legality of service contracts in legal actions that are now pending before the courts. The unions have supported costing procedures that serve to make private contractor costs appear non-competitive with Government costs, and have sponsored efforts that would give unions a bargaining right over decisions to contract with private industry.

The cumulative effect of these pressures—the numerous protests, lawsuits and “lobbying”—makes an agency apprehensive about obtaining services from private industry even when the agency may believe such action is warranted under established policy. The motivation of the Government employee unions, while understandable, is obviously the perpetuation and expansion of the Federal payroll without regard to national policy or true efficiency in Government operations. The unions in the private sector have not exerted comparable counterpressures and, in consequence, an imbalance of influences currently exists.

POSITION OF CIVIL SERVICE COMMISSION

In 1964 and 1967, the General Counsel of the Civil Service Commission issued opinions in which certain support contracts and “all others like them” were termed illegal on the basis that an employer-employee relationship existed between the Government and contractor personnel. As a result, service contracts were re-structured to ensure that personnel

would be supervised only by company officials and a proper contractual relationship maintained with the Government.

The present General Counsel of the Civil Service Commission has stated that the primary mission of his office is to serve as guardian of U.S.C. 2105(a), the statute which defines Federal employees, and to ensure that contractor personnel are not handled in a manner which would make them Federal employees *de jure* in regard to the benefits and privileges which accrue to a Civil Service employee. The General Counsel also, in a letter to a Federal employee union, stated that the Civil Service Commission has no authority to review an agency's decision on contracting or assigning work in-house, and that policy in this area is established by OMB Circular A-76.

DEPARTMENT/AGENCY IMPLEMENTATION

Misimplementation of the Executive Branch policy A-76 has been reported in DOD, NASA, GSA, DOT and other departments and agencies. Available statistics¹ show that the private sector share of Federal monies earmarked for the purchase of goods and services has declined substantially from the high water mark of 1967.

- In the area of research and development obligations, the industry share of the Federal dollar plummeted from 60.0 percent in 1967 to 47.1 percent in 1974; intramural activities rose from 20.6 percent to 27.6 percent over the same period.
- Total development obligations for the Department of Defense reveal a downward trend for industrial participation from 1967 through 1974. As a percent of total, industry went from 78.7 percent during 1967 to 71.2 percent in 1974. Corresponding figures for in-house activity show a rise from 21.3 percent to 28.8 percent.
- NASA research and development obligations indicate a similar trend with industry performance accounting for 78.0 percent in 1967 and declining to 61.2 percent in 1974. Intramural activity by NASA increased from 16.7 percent to 30.7 percent during the same years.
- Research and development obligations for the Atomic Energy Commission remained level during both 1967 and 1974 for intramural shares at 1.2 percent to 18.1 percent.
- Figures for the Department of Transportation research and development obligations show a substantial decline in the industry share from

¹*Trends in Government Contracting: Growth of Intramural Activity*, Aerospace Research Center, Aerospace Industries Association, December 1974.

74.9 percent in 1967 to 60.8 percent in 1974. Again intramural performance rose from 15.9 percent to 18.9 percent.

- Even in HEW research and development obligations, where the industry share advanced from 4.5 percent in 1967 to 5.5 percent in 1974, intramural performance rose higher still from 17.8 percent to 19.4 percent for the same years.

To further examine the problems associated with implementation, the Department of Defense was selected for two reasons. First, the Department has traditionally looked to industry for the majority of its goods and services. Second, there are significant trends which indicate a definite shift at present to greater self reliance by Government for goods and services that are available from the private sector.

The General Accounting Office on March 17, 1972, released its report titled "Better Controls Needed in Reviewing Selection of In-House or Contract Performance of Support Services," arising from an audit of Defense Department compliance with Circular A-76. Some of its salient observations are:

- DOD spends about \$6.3 billion yearly to provide its installations with commercial and industrial services and products. About 82 percent of DOD's expenditures for those products and services are for in-house activities.
- Decisions favoring in-house performance were not explained or justified in most cases.
- DOD agencies have been instructed to investigate work already being contracted to determine if it should be converted to in-house performance.

The thrust of the GAO findings indicates that DOD has often been relying heavily on its own agencies to provide goods and services rather than turning primarily to the private sector, as national policy—and the national interest—dictate.

GOVERNMENT AGENCY POLICY OF SELF-RELIANCE

It is the general policy of the Military Departments to establish and sustain what is called "organic capability" to conduct assigned missions. Within limits such a policy has merit, but it is too easily "interpreted" in a way that discourages reliance for support upon outside organizations (including the private sector) except when unavoidable. Given this perspective, the Defense Department directives on subjects such as the following can be—and often are—interpreted as establishing preference for in-house performance.

- **Depot Level Maintenance**

DOD Directive 4151.1, "Use of Contractor and Government Resources for Maintenance of Material," June 20, 1970, states:

"Generally organic maintenance capacity will be planned to accomplish no more than 70% of the gross mission related depot maintenance workload requirements . . ."

While this directive appears to be written to limit in-house work, it actually has been interpreted to mean that a proper balance will be achieved if 70 percent of the gross depot maintenance workload is accomplished in-house by the Services, leaving only 30 percent to the private sector. A reversal of these percentages would bring the DOD directive more nearly into conformity with the intent of Circular A-76.

The same DOD directive effectively limits industry participation to work that is in excess of military capacity by specifying that industry performance has its main application: "For accomplishment of indirect maintenance requirements which exceed military capacity . . ."

The total effect of such a directive is first, to build a strong in-house capability and, second, to sustain it regardless of conflict with established national policy.

- **"Mission Essential" Material**

Another section of DOD Directive 4151.1 states that each military department and defense agency shall:

". . . determine and designate those systems and equipments in their operating programs which are mission essential material, including the extent of depot level maintenance capacity and capability that should be developed and/or retained within the DOD for its support . . ."

Here the implication can be readily drawn that systems and equipments that are "mission essential" should be maintained in-house. It is certainly true that national security considerations require that mission essential equipment be properly maintained, but the bulk of it could (and under policy, should) be maintained by industry.

- **Reinterpretation of Circular A-76**

DOD Instruction 4100.33, "Commercial or Industrial Activities, Operation of," July 16, 1971, further clarified DOD policy by placing a rather singular interpretation on one of the exceptions in Circular A-76, which it quotes as follows:

“It is necessary for the government to conduct a commercial or industrial activity for purposes of combat support . . . or to maintain or strengthen mobilization readiness.”

The Instruction then states that “this criterion includes the need . . . to retain *an in-being depot level maintenance capability* as outlined in DOD Directive 4151.1 . . .” (emphasis supplied).

The fact is that it is not inherently necessary for DOD to have a self-sustained depot level maintenance capability—certainly not at anywhere near existing or contemplated levels. Such work is performed at sites far from places where military missions are performed. Moreover, it is performed by civilian personnel, in facilities that are more industrial than military in nature. Depot level type functions can be and are performed efficiently by private industry.

● Technical Services

DOD Directive 1130.2, “Engineering and Technical Services, Management and Control,” October 2, 1965, dealing with the use of engineering and technical services, states:

“Contract Field Service will be utilized *only* where necessary for accomplishment of a military mission and where satisfactory provision of services by DOD personnel is not practicable.”

In general, these DOD directives and instructions clearly conflict with the policy and intent of Circular A-76 and show why Circular A-76 has not been more effectively implemented in that department.

THE CASE FOR STRENGTHENED POLICY AND IMPLEMENTATION

In the dialogue and debate on this subject during the past decade, proponents of direct Government performance have placed their own interpretation on policy instructions. They have ignored the policy that the Government should utilize industry unless there is strong overriding reason to perform the work in-house. They have ignored the principle that the role of the Government is to “govern” and that any function which it performs that is not essential to its governing role serves to encumber that role. The *rule* should be to rely on industry—the *exception* to perform work in-house.

Industry has repeatedly demonstrated its capability to satisfactorily perform work that is also done by the Government. Industry has further demonstrated an ability to be cost competitive with Government activities, and has shown a wide range of skills and a capacity for flexibility that Government cannot

match. Decisions to create or maintain a Government capability to provide products or services that are available from the private sector should be limited to only the most compelling circumstances.

COMBATING INFLATION BY ACHIEVING MAXIMUM EFFICIENCY AND ECONOMY

The Commission on Government Procurement studied the subject of Government competition with private industry for almost a year, performing extensive research and soliciting inputs from Government, industry and the academic world. The study concluded there is a substantial potential benefit to the nation through greater reliance on industry in providing the Government's needs for services and supplies. It found that optimum economy and efficiency can be achieved if the Government relies on competitive procurement for its supplies and services. A major recommendation of the study was that Government agencies should rely on the private sector for any product or service that is available in a competitive market without making a cost comparison with in-house performance. This recommendation was based on the conclusion that competitive forces would assure reasonable prices and avoid the necessity of time consuming, expensive, and controversial cost studies.

One well-documented example is the operation of Vance AFB, Oklahoma, where base support, maintenance of aircraft and other equipment, and logistics are handled by a private firm under contract. A comparison of Vance with seven other USAF bases, of a similar size and the same mission, shows cost at Vance AFB to be 20-30 percent less than the average of the bases run by military and civilian Government personnel.

Industry operates in a competitive environment with many capable companies seeking the same business. Prices are naturally driven down by competitive pressures which necessitate economy and efficiency, the key to profit and survival. Properly structured and administered contracts can ensure satisfactory performance at a reasonable cost. Procurement experts estimate that competitive procurement reduces costs by 25-50 percent over sole-source acquisition, from either Government or commercial sources.

Government facilities, by contrast, are not required to engage in price competition. They operate with a cost accounting system which reflects neither total costs of doing business nor the total costs of doing any specific task. Although operating budgets limit total funding and require some ingenuity in getting the work done, the profit incentive for cost reduction and greater efficiency does not exist. Operating under an established budget in a non-competitive environment produces limited motivation for effective cost management.

Reliance on the private sector also affords a greater degree of flexibility. As Government priorities and programs change, contracts can be and are terminated or modified accordingly. If, however, the affected work is being done in-house, Government management and personnel practices—unconstrained by the need to make a profit—make timely adjustments very difficult.

A major factor in economy and efficiency is productivity, and data available to the Procurement Commission reflected greater increases in productivity in the private sector than in Government operations. Even in the services field, private sector statistics showed steady gains while Government operations showed no change or negative trends. The private sector continuously demonstrates its ability to accommodate such changes with minimum disruption. Government organization and regulations do not lend themselves to the decisions which must be made to implement new technology, restructure organizations, and change personnel in order to maximize productivity. One of the major reasons for converting the Post Office Department to a corporate entity was an effort to achieve the flexibility and resultant efficiency found in the private sector.

The main attraction to contracting with private industry, however, is that such purchasing arrangements provide the best hedge to the inflationary spiral. The combination of greater productivity, flexibility in dealing with the changing demands of the marketplace, and the inexorable downward price movement which results from free competition can not be duplicated by an intramural approach to meeting the needs of the Federal Government.

To argue that it is necessary to attain an organic capability within the Federal Government regardless of its impact on the private sector is short sighted. It ignores the adverse effect such intramural activity has on Federal purchasing power. Further, it insinuates that the unfettered growth of in-house capability has little or no effect on the Government's effort to stem the tide of rampant inflation. Nothing could be further from the truth.

In short, the facts show that the private sector is better able to cope with the demands made by the inflationary spiral and to adjust accordingly.

STRENGTHENING THE FREE ENTERPRISE SYSTEM AND TAX BASE

The United States has always been dedicated to the economic principle of free enterprise, which has maintained a strong domestic economy and led to the highest standard of living in the world. Inherent in this philosophy is the principle that the Government should not compete with the private economy, but should support it as a customer. In addition to the benefit of obtaining products and services at reasonable cost from a healthy and competitive economy, the Government is also able to levy taxes on the

income, real estate, and other property owned by business. The stronger the private economy, the greater the revenue to the Government and the less tax burden that must be placed directly on the citizens.

To the extent that the Federal Government provides goods and services that could be furnished from the private sector, the domestic economy is weakened. Sales and profits are decreased, real estate and property are held in the public sector and not subject to taxation. The tax burden on the individual, at the Federal, state, and local level, is increased.

A significant serendipitous effect of Government reliance on the private sector is more rapid transfer of technology to commercial applications which benefit the entire nation. Government sponsored research and development, when performed by private firms with related commercial products, can be much more rapidly applied to the civilian market than if performed in Government facilities. This has been clearly demonstrated in our space program due to NASA's extensive reliance on private firms for its R&D effort.

SUSTAINING A VIABLE DEFENSE INDUSTRY

The defense and aerospace industries are now faced with the declining Federal procurement budgets and competition from Government-owned and operated facilities, especially in the field of research and development and logistics.

These industries strongly endorse and support the established U.S. national policy of reliance on the private sector to supply the weapons and equipment needed by the armed forces to carry out our international obligations and to protect our national interest. The pluralistic approach to advancing technology, and to applying technology to weapon systems has served this country well. Highly competitive private industry, rather than a centralized system of arsenals is the hallmark of U.S. pre-eminence in military weapons and equipment.

In these days of declining research and development and procurement budgets, it is even more vital than before that the government goods and services which can be obtained from the private sector be obtained from the private sector. Additional revenues arising from transfer of research and development work from Government laboratories to industry will help to keep industry's R&D teams viable. For example, the reversal of the declining trend of industry as a performer of Federal research and development—69 percent in 1960 to 50.7 percent in 1973—would significantly improve the situation.

Industry must maintain and support its teams of scientists and engineers, even in time of peace, if this country's defense capability is to remain competitive. If industry is to produce the weapons needed, it is vital that industry advance the state of the art and then transfer it to production.

Potential revenues to industry arising from transfer of logistics work from Government facilities are considerably higher than in the research and development area. This income would help significantly in maintaining a healthy defense industry capability.

The declining defense market, combined with the expansion capability needed for national emergencies, creates a condition wherein any revenue which helps retain private contractor capabilities is important to the future security of the nation.

A vital part of this picture is the viability of small business which makes up a substantial part of the defense industry's first tier subcontractors. Small business also serves the Government in prime contracting for a significant amount of research and development, logistics, and production work.

AN ACTION PROGRAM: NEEDED CHANGE

Key Issues

"There is a national policy that the Government should rely on private industry for goods and services,

BUT

that policy is not clearly stated or effectively implemented at the present time."

As long as the policy, while acknowledged, is given faulty interpretations and not enforced, divergent interests will continue in a destructive contest:

The key issues appear to be:

1. Based on experience with existing instructions, the policy is not clearly stated.
 - a. Exceptions allow justification of nearly any course of government action.
 - b. Cost comparisons appear to take precedence over the principle of preference for the private sector.
 - c. Cost comparisons are made under a dual standard that favors in-house work.
2. The policy lacks an enforcement mechanism.
3. The self interest of civilian Federal employees collides with policy, and policy frequently loses.

REMEDIAL ACTION

One of the specific recommendations of the Commission on Government Procurement is that Congress provide statutory expression of the national policy of reliance on private enterprise for needed goods and services. This point is clearly supported in studies conducted by the Department of Commerce

and the General Accounting Office. Each of these studies concludes that there has been a lack of effective implementation of the policy throughout the Executive Branch. It is clearly shown that optimum economy and efficiency can be achieved through competitive procurement of needed goods and services.

We endorse the reports issued by the Commission and the Department of Commerce, as well as previous reports by industry groups, all of which recommend essentially the same actions, namely:

1. The Executive Branch should provide enforcement measures for the principles set forth in OMB Circular A-76.
2. The Executive Branch should strengthen the current policy statement so as to return it to the basic policy statement of the earlier Bulletin 55-4 and to require Federal agencies to rely on the private sector except for those cases where:
 - a. Such reliance would demonstrably disrupt or significantly delay an urgent agency program.
 - b. In-house performance is mandatory for the national security.
 - c. The product or service is not and cannot be made available in the private sector and is available from a Federal source.
3. Congress should establish through legislation that it is national policy to rely on the private sector for needed goods and services to the maximum extent feasible, and to strengthen the authority of Government agencies to contract for its goods and services.

Aerospace Industries Association of America, Inc.

1725 De Sales Street, N.W.

Washington, D.C. 20036

Electronic Industries Association

2001 I Street, N.W.

Washington, D.C. 20006