

Chairman PROXMIRE. In 1965-66, the inactive property was down?
Mr. BAILEY. The inactive real property; yes, sir.

RISE IN VALUE DUE IN PART TO MODERNIZATION AND REPLACEMENT
PROGRAM

Mr. STAATS. It is shifting between the active and the inactive status. One of the factors contributing to the rise in the value of Government-owned property held by contractors is the Department's program for modernization and replacement of Government-owned machine tools. Annual expenditures for this program averaged about \$27.4 million during the period 1958 through 1963. Fiscal year 1966 expenditures amounted to \$51.5 million and expenditures of \$65.8 million were forecast for the fiscal year 1967.

Chairman PROXMIRE. Once again we have a situation in which the Federal Government has purchased equipment for contractors and it is following a policy, apparently, and the tenor of your remarks suggests that maybe there is approval and maybe not, maybe I misconstrue it, of providing better equipment, more modern equipment for the contractors.

It would seem to me that every one of these purchases should be made with the greatest reluctance and only on a showing that it is absolutely necessary. When you have to buy more modern equipment, there should be a real effort to get the contractor to buy it himself.

ADHERENCE TO POLICY INVOLVED

Mr. STAATS. That would be a correct reading of the statement of policy on the part of the Department of Defense. What is suggested here at least is a question, and maybe it can only be a question absent more specific information on individual cases: Whether or not they have vigorously applied the policy which the Defense Department, itself, has enunciated in modernizing equipment at Government expense.

Chairman PROXMIRE. Do you have anything in greater detail as to what kind of justification they require to enable the Defense Department to go ahead and make purchases for a private contractor?

Mr. STAATS. We do not have it here today, I understand, but we will be glad to see if there is anything we can obtain for the record.

Chairman PROXMIRE. We would like to know the justification, what they go through, what the criteria are.

(The justification follows:)

NATURE OF JUSTIFICATION REQUIRED AND THE CRITERIA USED BY THE DEPARTMENT
OF DEFENSE FOR REPLACING GOVERNMENT-OWNED INDUSTRIAL EQUIPMENT IN
THE POSSESSION OF PRIVATE CONTRACTORS

The Department of Defense's general policy on replacement of industrial equipment as stated in DOD Directive 4275.5 is that basically, the contractor will be encouraged to replace old, inefficient Government-owned equipment or manufacturing processes with modern, more efficient, privately owned equipment. The weighted guidelines for negotiation of profit or fee is cited as encouraging the contractor to provide equipment required on DOD contracts.

When the contractor cannot be persuaded to replace Government-owned equipment or improve manufacturing processes, the replacement may be effected if