

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., January 30, 1968.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee, Congress of the United States,
Washington, D.C.

(Attention: Mr. Ray Ward.)

DEAR MR. CHAIRMAN: Mr. Ray Ward, of your staff, has asked for additional information regarding two matters which came up during the course of my testimony before the Committee.

With regard to the first (hand tools—Buy American policy), enclosed is copy of a letter to Senator Brooke following up on earlier correspondence and telephone calls, and confirming discussions with a member of his staff. At the hearings of the Joint Committee I indicated that I would report to the Committee on the follow-up with Senator Brooke that the Committee requested. I had neglected to do so.

With regard to the second (Government-owned equipment in contractor plants), enclosed is a copy of a tabulation returned with the transcript when it was sent us for editing. We believe the tabulation responsive to your inquiry in the description on page 394 of the transcript. (See p. 554.)

Sincerely,

PHILLIP S. HUGHES,
Deputy Director.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., January 27, 1968.

Hon. EDWARD W. BROOKE,
U.S. Senate, Washington, D.C.

DEAR SENATOR BROOKE: This is in response to correspondence and telephone calls from you and members of your staff concerning the Bureau of the Budget's application of the Buy American Act in the purchase of handtools by the General Services Administration and the Department of Defense. As you know, I have also met with Mr. Riemer of your staff on the matter.

As the result of an attempt to provide a more efficient and economical government-wide system of procurement, GSA has been given primary responsibility for purchasing handtools for use by all government agencies. DOD and GSA entered into a consolidated purchasing agreement in 1964 in order to eliminate overlapping and duplication within the Government's supply system. Under this agreement, procurement and management control for 52 classes of commodities, including handtools, were transferred to GSA. DOD was given procurement responsibility for all agencies for 98 classes of commodities. The division of procurement responsibility for specific commodities was determined on the basis of the end use of the commodity. GSA was given the procurement responsibility for those items used through the Federal Government or which were commercial in nature. DOD was assigned those items which were essential to military operations.

Total purchases of handtools by GSA were about \$107.5 million in fiscal year 1967, foreign procurement amounted to \$2.7 million (about 2.5%). Recent analysis by GSA indicates that foreign procurement of handtools would have been significant in FY 1967 (about \$1.5 million) even under the application of the DOD 50% differential. As you can see, GSA procurement of foreign handtools is a small part of GSA total handtool procurement and has not been the cause of a dislocation of the American handtool industry. GSA purchase of foreign handtools is also a small part of the value of handtools imported into the U.S.

Furthermore, the difference between effective preference afforded domestic firms under the 6% GSA differential and the 50% DOD differential is not as great as it would first appear. Because the 6% differential is applied to the foreign offered price, *including duties*, while the 50% differential is applied to the offered price *excluding duties*, the difference in the effective preference afforded domestic bidders under the two differentials will be smaller the higher the duties. The average rate of duties on handtools purchased by the GSA is about 23%; thus, using the 6% rule gives domestic bidders 30% effective preference, compared to 50% preference under the DOD 50% rule.