

record high levels in an extremely short period with the outbreak of World War II. A similar situation occurred with the Korean War. Vietnam, until recently, has been somewhat different. It is the sudden and tremendous upsurge in procurement that loosens up Government—mainly Defense Department—practices and sets the stage for profiteering. For Vietnam there was no sudden upsurge until last year.

For several years preceding 1966, procurement and prime contract awards by the Department of Defense had remained at a high but a fairly steady level. In fiscal year 1964, prime contract awards totaled \$28.7 billion. In fiscal 1965, the figure even declined, to \$27.9 billion. But in fiscal 1966 prime contract awards soared to \$38.2 billion, an increase of more than \$10 billion or approximately thirty-nine per cent in a one year period—a sudden and tremendous upsurge.

The figures for the first six months of fiscal year 1967 showed a twenty-eight per cent increase over the 1966 figures. The best estimate projects about a twenty per cent increase for the full year, which will place prime contract awards for 1967 at \$45 billion. This amount will be the highest dollar amount in any year since World War II, including the Korean period. Inevitably these increases will add a greater workload to the Renegotiation Board and will hopefully result in large recoveries of excess profits. But how well-equipped is the Board to do a thorough job?

The Government's earliest attempts to curb profiteering resulted in the Vinson-Trammell Act of 1934. This law, as later amended, fixed profits on shipbuilding at ten per cent and on aircraft at twelve per cent. Unfortunately, neither the Vinson-Trammell Act nor subsequent attempts to restrict excessive profits by building safeguards around the contract itself worked as intended. Vinson-Trammell contractors simply padded their costs to defeat the statutory percentage limitation on profits. Cost-plus-fixed-fee contracts; lump-sum contracts; escalator clauses; permitting price adjustments in accordance with fluctuations of labor and other costs; and letters of intent to negotiate a formal contract were all tried without material success.

With the experience of World War I, when profiteering reached a zenith, and the failure of Vinson-Trammell, still fresh in Government circles, the principle of renegotiation was introduced at the outset of World War II. Under the Renegotiation Act of 1942 the Government reserved the right to renegotiate war-time contracts by procurement officials. Thus, a contractor may be called upon to refund to the Treasury that portion of his profits for the fiscal year examined—on contracts with Government departments named in the Act—which are determined by the Board to be excessive.

The Renegotiation Act of 1951 made the Board independent for the first time. But the Act is temporary and must be renewed every two years. The 1951 Act was strong and sound. It enabled the Government to recover more than \$800 million in connection with contract awards during the Korean War, in addition to large voluntary refunds.

Beginning in 1954, however, a series of amendments was pushed through Congress with the intent of *reducing* the ability of the Board to do the job intended. For example, under the original Act, contractors whose prime contract awards totaled at least \$250,000 during the fiscal year were subject to renegotiation. The 1954 amendments raised the floor to \$500,000. In 1956 the floor was again raised to \$1 million.

An even more serious limitation on the Board's ability to police the profiteers is the multitude of exemptions that have been inserted into the Act. Contracts for "durable productive equipment," meaning machinery, tools, or other productive equipment with a useful life of more than five years, are exempt. There is an exemption for "Standard Commercial Articles or Services"—articles customarily maintained in stock by the contractor, the commercial non-governmental sales from which constitute at least thirty-five per cent of the total sales of that article during the fiscal year. This covers a huge range of products and services.

Other limitations now include an exemption for construction contracts let by competitive bidding, a five year carry-forward loss provision, and elimination from the Act of a number of Government agencies which were originally cov-