COST STUDIES ON ADVANTAGE IN GOVERNMENT PROVIDING EQUIPMENT

Chairman PROXMIRE. Perhaps I should wait until you complete this statement because as far as I know you are going to recommend, I hope, that we enact a law on this. But let me ask on the part you have completed, your second exception is that these facilities can be purchased by the Government and should be when it is likely to result in substantially lower cost to the Government of the items produced.

Have you seen any cost studies to prove that there are any examples of this?

Mr. STAATS. I have not.

Chairman PROXMIRE. Wouldn't this be helpful? Wouldn't this be a good way to follow up to determine whether this exception is meaningful?

It is hard for me to, offhand, imagine that this would be very common. I can't conceive of a situation in which this would be likely to occur, given an accurate and proper cost accounting system.

Why would it be cheaper for the Government to own equipment? Certainly, all motivation is for an entrepreneur who buys his equipment to buy it more carefully, to maintain it more rigorously and to make sure that it is the equipment that can do the job in the most efficient way. If the Government buys it, there is far less incentive for him to exercise this kind of diligence.

REDUCED COSTS FOR GOVERNMENT-OWNED EQUIPMENT

Mr. BAILEY. Mr. Chairman, in our report which we referred to before, we do point out that in some cases where reduction in cost of production was one of the reasons for acquiring Government machinery, adjustments were not made in contract prices to reduce or reflect these revised production costs. That is, for existing contracts in the plant. Whether these reductions in cost would be reflected in new contracts would be a matter of negotiation of new contract prices.

Chairman PROXMIRE. What you are saying is that even though the Government owned the equipment and, therefore, the price of the product produced should be less inasmuch as the contractor did not have to amortize——

Mr. BAILEY. Where the equipment being used to produce Government property was modernized on the basis that it would cost less to produce the Government material.

Mr. STAATS. There was no flow through on the saving.

Mr. BAILEY. The contract price of the material was not reduced.

Chairman PROXMIRE. This is the point which has evaded me. I think it is a good point.

If you are going to modernize the equipment, you certainly ought to do it on the basis of renegotiating the price of the item being produced.

You say the record shows there has not been such a reflection?

Mr. BAILEY. In some of the instances.

Chairman PROXMIRE. You are helping the contractor to make a bigger profit, at the same price, with more efficient equipment, the efficiency provided by the Government, by the taxpayer. So he has a lower cost and his profits are bigger. That is the ultimate result.