

of Government people available in-house has now been so reduced that little or no checking is possible. I believe it is wrong to operate this way. For this reason I have maintained qualified scientists and engineers right in my headquarters organization. They check plans, specifications, procurement, manufacturing, testing, inspection, and operation. In this respect my organization is a small island in a sea of entropy; I have in-house capability.

The Government, when buying an item, particularly a new one, goes to industry and says "Please prepare the specification." Then if qualified Government people are available they reword the specification and modify it, as necessary, on the basis of the experience the Government has had with that type of item. But today it is hardly possible to do this adequately, particularly with the new policy of the Defense Department.

Mr. WIDNALL. I wasn't addressing my remarks to design.

Admiral RICKOVER. The specification includes design, manufacturing, packaging—everything that is pertinent.

I appreciate what you are saying, but take that specific instance you mention, Bendix—the company near where you live. You might try to find out who is actually responsible for what you consider to be the excessive packaging and whether that degree of packaging is really unnecessary.

Mr. WIDNALL. Can we get back to what your recommendations are with respect to the Department of Commerce?

Admiral RICKOVER. I would have to go on with my testimony, sir.

Mr. WIDNALL. Would you do that?

Admiral RICKOVER. If I may, Mr. Chairman.

Mr. BARRETT. Yes, sir.

HIGH PROFITS ON DEFENSE CONTRACTS

Admiral RICKOVER. I gave you an example of propulsion turbines going up almost 100 percent in price, from \$5.5 to about \$10 million. One major item in this increase was a \$1.5 million increase in profit. The profit totaled 25 percent on cost; that is, \$2 million profit on a \$10 million contract. This supplier increased his rate of profit from 10 percent to 25 percent for this equipment, a 250-percent increase in profit.

Profits on negotiated defense contracts have increased substantially in recent years. In 1963, I told the House Appropriations Committee I was concerned that equipment prices were continually rising and that I was not convinced the Government was receiving corresponding additional value for the higher prices. I stated that because of their varied and frequently changing accounting systems, contractors were able to charge more than they should for complex equipment; that the Government needed additional protection to prevent industry from making excessive profits on complicated equipment and from hiding these profits as "costs."

DEFENSE DEPARTMENT CLAIMS LOW PROFITS ON DEFENSE CONTRACTS

In response to my testimony, the Department of Defense issued a press release stating that, in complaining about the profits of large defense contractors, I was "sailing on the wrong tack." They stated that, based on data from the Renegotiation Board, average profits on