

defense contracts had dropped from "6 percent in 1956 to 3 percent in 1962." Please note these figures carefully, Mr. Chairman; they are official quotes.

The Pentagon press release said that the way to save money on contracts was not to attack profits but to drive costs down. They pointed out that the Secretary of Defense's cost reduction program would yield nearly \$4 billion a year in savings by 1967 and would continue thereafter. From the fanfare used by the Department of Defense to acclaim its cost-reduction program over the past several years, it would appear that their "savings" have been limited only by their verbal facility.

In 1964 and 1965, I again testified before the House Appropriations Committee and pointed out that profit on defense contracts for complex equipment were still increasing and that unless the Government instituted uniform standards for accounting, profits would continue to be hidden in contractors "costs."

I recommended that defense contractors be required to keep their books in a way which would provide meaningful information on their costs, and that they be required to base their proposals for contracts on a Government-approved accounting system.

I stated that the Government audit groups were understaffed and poorly equipped to cope with industry's variety of complex accounting systems as well as their highly trained and well-paid accounting and legal staffs. The only way the Government could protect itself in this area, under the circumstances, was to require by law or regulation that specific accounting standards be developed and contractors be required to meet these standards when they perform negotiated contract work for the Government.

In 1966, I pointed out that profits had increased substantially as a result of the weighted guidelines method of profit analysis instituted by the Department of Defense and that this was resulting, in some cases, of profits 30 percent higher than for preceding years. Like rain, this increase falls equally on the good and the bad.

The Department of Defense response has been to ignore what I have said; to continue to maintain that the way to reduce costs is through their own cost-reduction program. Sometimes we are motivated not to solve problems because solving them would endanger familiar ways of doing things.

They appear to believe that I have no business criticizing contracting or other practices of the Defense Department—that if any criticism is warranted it will come from their own officials whose job it is to take care of such matters. In other words: "Mother knows best." These people have ceased to be capable of self-criticism. In this area, their great power, as contrasted with their small actions, is as if Prometheus had become manager of a match factory. It is for this reason that Congress itself must undertake the task.

GENERAL ACCOUNTING OFFICE CONFIRMS 25 PERCENT INCREASE IN PROFIT

I testified on this subject again in 1967. The House Appropriations Committee then asked the General Accounting Office to look into the matter of profits on negotiated defense contracts. The GAO reported that profits being paid by the Department of Defense on negotiated contracts had in 1966 on the average increased by 25 percent—which is what I had said—over profits paid during 1959 to 1963.

Here is what the GAO figures showed: