NEGOTIATED PROFIT RATES ON DOD CONTRACTS

[In percent]

Type of contract	Profit on cost		Increase
	1959–63	1966	
Firm fixed price	9.0	10.6	18
Fixed price incentive	8.9	9.8	10
Cost plus incentive fee	6.0	8.2	37
Cost plus fixed fee	6.2	7.6	23
Average for all types	7.7	9.7	26

Mr. Blackburn. I would like to ask a question at this point, because these figures are going to be confusing to me if I don't ask about them, and they may be to the rest of the committee.

When you say, "10-percent profit," are you referring to the gross sale price of an item—10 percent of the gross?

Admiral Rickover. I am referring to a percentage of costs, sir.

Mr. Blackburn. The word "cost" as defined by the Defense Department?

Admiral Rickover. By the industry itself. If it cost a company $100 to make an item, and their price was $110, they make $10 profit.

Mr. Blackburn. Say it costs a company $100 to deliver the item.

Admiral Rickover. I am referring to the profit they make on the $100 cost. Ten percent profit would be $10 in this case.

Mr. Blackburn. Over and above the $100.

Admiral Rickover. Yes, sir. I am telling this committee that there has been, in a short period of time, an increase in profits by the percentages I stated. For example, I mentioned the 37-percent increase in fee for cost-plus-incentive-fee contracts. On cost-plus-fixed-fee contracts there was an increase of 23 percent. All in all, it averaged out to a 26-percent increase in profit.

Mr. Wolff. Just one moment. I think that what is being asked here is whether we are talking about markup or margin. Is it based upon cost, or based upon the selling price?

Admiral Rickover. On cost, sir, the actual cost as reported by the manufacturer.

I am pointing out that despite what the Department of Defense says about 3-percent profit—defense contractors get much more than that—as verified by the General Accounting Office.

It may be possible that the Department of Defense cost reduction program is now actually saving $4 billion a year. If this is really so, it surely can't be attributed to lower profits. There is no question, based on the GAO data, that profits on defense contracts have increased by about 25 percent. When you apply this to the $35 billion of negotiated procurement in fiscal year 1967, you can get some idea of how much more is being given to industry.

DOD Profit Study

The Department of Defense and industry would like us to believe that while negotiated profits may have increased, these are only "going in" profits and that actual profits realized on defense contracts, "coming out profits," are much less. The Department of Defense recently released a profit study made for them by the Logistics Manage-