ment Institute which states that profits on defense contracts have declined since 1958 and are now much lower than industry profits on commercial work. This Department of Defense profit study indicates that defense contractors are earning only 2.4 percent profit on Government work.

There are several things wrong with this claim to low profits. For example, I have here a certified cost breakdown for a $2.2 million procurement. The breakdown is a typical one from a supplier who does several million dollars' worth of defense business each year.

This breakdown shows a profit of 2.5 percent. If the supplier manufactured the item at exactly his estimate, he would report a 2.5-percent profit to the Renegotiation Board, to the Department of Defense, or to any one else who asked.

But in actuality, according to the Government auditor—and the supplier generally agrees—this procurement reflects profit of 12 to 13 percent. The supplier includes in his estimate costs which are not allocable or applicable to Government business. His breakdown thus, in fact, includes a subsidy for his commercial work. Yet he has fully certified it as being accurate, complete, and current in accordance with the Truth-in-Negotiations Act.

Further, the data included in the Department of Defense profit study is based on figures volunteered by the 65 defense contractors who agreed to furnish profit information out of 111 who were asked to do so. According to the study, many of the companies were unable to participate "because of lack of data in the form required or inability to meet the time requirements."

It is difficult for me to believe that 46 of 111 defense contractors do not know what profits they are making on defense contracts. It may be that firms that could actually "show" a low-profit figure on defense contracts would be eager to participate in such a study because their figures would then support a case for higher profits on defense work, while firms with high profits would be reluctant to furnish such information. I do not believe any useful purpose is served by a study such as this which is based on information volunteered by contractors.

Statistics can be used to confuse and oversimplify. When the reader does not know what they mean, the results can be semantic nonsense. Conclusion from this sort of sampling, casually read, makes the figures appear to have scientific precision.

Differences Between Reported and Actual Profit

It is my experience that the data reported by contractors are generally quite different than the actual data found on Government audit. Let me give you a comparison which shows the difference between profits reported by five contractors and the actual profits determined by Government audit:

[In percent]

Contractor	Profit reported	Actual profit by government audit
A	4.5	10.0
B	12.5	19.5
C	11.1	16.9
D	[1] 2.0	15.0
E	21.6	23.7

[1] Loss.