

NET INCOME, 5 MAJOR DOD CONTRACTORS

	Average		Difference	Percent Increase
	1963-65	1966-67		
General Dynamics.....	\$47.2	\$57.7	\$10.5	+22.2
Lockheed Aircraft.....	46.6	56.7	10.1	+21.6
General Electric.....	287.7	350.1	62.4	+21.7
United Aircraft.....	33.2	51.9	18.7	+56.3
Boeing Co.....	48.4	80.0	31.6	+65.3

EARNINGS PER COMMON SHARE

General Dynamics.....	\$4.41	\$5.53	\$1.12	+25.3
Lockheed Aircraft.....	4.28	5.07	.79	+18.5
General Electric.....	3.18	3.88	.70	+22.0
United Aircraft.....	3.08	4.37	1.29	+41.9
Boeing Co.....	2.99	4.00	1.01	+33.8

As I said, the primary object of industry is to make profits, and with this I agree. I am not against industry making a reasonable profit on Government business, nor am I interested in having the Government dictate how industry should run its business. But recognizing that industry's main purpose is to make profit we should make certain it does not influence the Government's ability to obtain a reasonable price for what it buys.

But that is only half the story.

PROFITS HIDDEN AS COST

Profit is only a part of the real income to a company. In many cases the company benefits through overhead as well as from profit—sometimes better, since profits are taxed and overhead is not. Overhead charges usually constitute a great part of the cost on Government contracts. It is here that companies use much ingenuity in making expenditures for plant repairs and rearrangements, tools, manufacturing control techniques, computer programs and other items—items which can be charged to overhead but which actually serve to improve the company's commercial capability.

A company's profits are taxed about 50 cents on the dollar. But an overhead dollar is not taxed, and is therefore worth twice as much as a profit dollar when it is used to improve a company's business. By charging these improvements to overhead the company reduces the amount of income tax it must pay. The American public is the loser.

NEED FOR UNIFORM STANDARDS OF ACCOUNTING

It should be clearly understood that under existing procurement rules it is not possible to tell just how much it costs to manufacture equipment or just how much profit a company actually makes—without spending months reconstructing the supplier's books. Large additional profits can easily be hidden just by the way overhead is charged, how component parts are priced, or how intracompany profits are handled. The company may report as cost what actually is profit.

In one case Navy and General Accounting Office auditors conducted an extensive number of audits to determine one supplier's actual cost in making equipment for the Government. These audits and evalua-