(*b*) Reduce the level of reporting from $1 million at present to $250,000.

(*c*) Eliminate the so-called 35-percent rule for exemption of commercial articles.

(*d*) Include all construction contracts.

(*e*) Include machine tools and other durable production equipment.

(*f*) Include the Tennessee Valley Authority.

I agree with Representative Gonzalez' recommendation to strengthen the Renegotiation Act. The act has had to run a gauntlet from industry and its lobbies each time it was extended by Congress and has steadily been emaculated over the years.

Originally, in 1951, the Renegotiation Act required every contractor having renegotiable business to file a report with the Board regardless of the amount of business involved. Contractors whose sales totaled over $250,000 were subject to renegotiation. At present, only contractors having renegotiable business of $1 million are required to file reports with the Board and be subject to renegotiation.

Funds for the Board and its staff have been severely restricted. At the same time, the need for the Renegotiation Act as well as a strong Renegotiation Board is, in my judgment, greater today than ever before. At the end of the Korean war in 1953, Department of Defense procurement was about $32 billion and the Renegotiation Board employed about 750 people. Today, Department of Defense procurement runs to $45 billion but the Renegotiation Board has been reduced to about 180 people.

Those who oppose the Renegotiation Act argue that industry profits are so low that the act is no longer needed to protect the Government from undue profits. They claim that average profits on Defense contracts are very low—2 to 3 percent—therefore renegotiation is unnecessary. However, I have pointed out that average profits on Defense contracts are up substantially. Further, averages are misleading. If you average a 2-percent profit which is reasonable on a cost-plus contract with a 20-percent profit which is unreasonable on an equipment contract of the same dollar value, the average resulting profit of 11 percent is very misleading.

With regard to the 35-percent rule for exemption of standard commercial articles, I would like to quote Mr. Lawrence E. Hartwig, present Chairman of the Renegotiation Board, in a statement before the House Ways and Means Committee, March 11, 1968:

> The exemption of standard commercial articles may be self-applied by a contractor if he maintains an article in stock or offers it for sale in accordance with a price schedule and his sales of the article in the fiscal year, or in such fiscal year and the preceding fiscal year, are at least 35 per cent nonrenegotiable.
>
> Under the class exemption, only one article in the class need be stocked by the contractor or offered for sale from a price list. He may include in the class other articles which are of the same kind and content and are sold at reasonably comparable prices. If 35 per cent of the aggregate sales of the articles in the class are nonrenegotiable, all are exempt. For this exemption the contractor must make application to the Board.
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> The theory underlying this exemption provision is that when articles are sold commercially to the extent of at least 35 per cent, the prices of such articles have been tested by competitive forces in the marketplace, and this circumstance furnished adequate assurance against excessive profits.
>
> The statute fails to take into account the impact and other effects that volume buying by the Government can have on the commercial market and the operations of particular contractors. A fair price for commercial sales of an article may be an excessive price for large sales of the same article to the Government because