

unit costs may be less. Also, heavy Government purchasing in certain sectors of the market may affect price levels to such an extent that excessive profits result. Moreover, many of the items which fall within the class exemption are sold exclusively or predominantly to the Government and are therefore not subject to the competitive pressures of the commercial market. Finally, since defense and space authorities consummate millions of procurements transactions each year, mistakes are an ever present possibility.

The commercial exemption applies to a wide variety of commodities, parts and component materials. For the information of the Committee, we have prepared and distributed a list of representative articles which have been exempted. I ask that it be made a part of the record. As you will note, the list includes items such as aircraft, drugs and many types of electronic equipment, including complex computers.

I recommend the Renegotiation Act be made a permanent law. I don't know how the Renegotiation Board can be expected to do its job effectively, to recruit and retain skilled personnel and to provide for continuing examination of profits on Defense contracts when it has the sword of Damocles hanging over its head every 2 years. Also, the Renegotiation Act should be changed to include all items needed for our national defense except commercial items such as bread, flour, clothing, and so forth, and for which there is an open competitive market. I concur fully in the proposal to include construction contracts and purchases of machine tools and other durable production equipment.

RECOMMENDATION FOR ADDITIONAL CHANGES TO THE RENEGOTIATION ACT

Admiral RICKOVER. I would go even further than Representative Gonzalez' proposal to strengthen the Renegotiation Act. I would recommend that the act be amended to—

1. Require that industry report cost and profits on each Defense contract over \$100,000, on a contract-by-contract basis.
2. Provide for renegotiation of contracts within individual commodity groupings, such as the groupings prescribed by the Federal Supply Catalog, rather than by total company sales.
3. Require that costs and profits be reported in accordance with a uniform standard of accounting. The accounting standard should exclude costs not appropriate to Government contracts of the type set forth in part 2, section XV of the Federal Procurement Regulation, such as advertising, interest, bad debts, and so forth.
4. Require that industry's reports be certified by an authorized senior company official, and provide criminal penalties for filing of false or misleading data.
5. Not allow the plea "nolo contendere" in these cases.

ADMINISTRATION OF DEFENSE PRODUCTION ACT

Mr. BARRETT. Would you give us your comments on the administration of the Defense Production Act by the Department of Commerce?

Admiral RICKOVER. Yes, sir.

Congress passed the Defense Production Act in 1950 to help the military departments obtain the equipment they needed for the Korean war. At that time the economy was at a high level of activity. A close parallel to that situation exists today.

Since the Korean war, Defense expenditures have risen from \$35 billion in 1954 to about \$70 billion in 1967. In the same period, consumer expenditures have risen from \$236 billion to almost \$500 billion. Nevertheless, I have found both the Department of Defense and the Department of Commerce unwilling to use the authority that Congress has granted them under the Defense Production Act.