about $3.4 billion. However, the average profit on negotiated contracts in 1959 to 1963 was 7.7 percent. Thus the profits on Department of Defense contracts awarded in 1967 was about $700 million higher than it would have been without the Department of Defense increases. These figures do not include the Department of Defense's contracts awarded on the basis of competition, nor contracts let by the National Aeronautics and Space Administration, the Atomic Energy Commission, or other Government departments.

Further, these profits are the ones admitted to by industry. I have pointed out that substantial profits can be hidden as "costs" on defense contracts. The true profit on negotiated contracts is, I believe, much higher than the average of 9.7 percent admitted by the Department of Defense and industry. Just how much I can't tell; no one can. But I believe it is realistic to assume that uniform accounting standards could save a minimum of 5 to 10 percent on costs. I believe the saving could easily be $2 billion a year; this one item could save half the $4 billion per year the Department of Defense has claimed for its entire cost-reduction program.

The term "average profits" reminds me of the story about the man who saw the sign, "chicken and horse burgers sold here." When he asked how much chicken and how much horse was used in the burgers, the answer was, one horse and one chicken. The same is true here. The profit on small, high-volume parts is averaged with profit on large complex equipment in such a manner that the result can be misleading.

I have pointed out to you that one of the Nation's largest defense contractors is insisting on a 25-percent profit on a $10 million contract. That was for a fixed-price contract. The same contractor is also insisting on a 15-percent profit for an $8 to $10 million cost-plus-fixed-fee contract in which he has no risk. The Government has no recourse but to deal with him; it cannot go to another source for the item. This is the sort of situation that is being obscured by the Department of Defense profit statistics which say that the average profit is only 2.4 percent.

The weighted guideline itself has increased profit about $1 billion per year, yet that has been acclaimed as a fine scheme to save money—by rewarding greater efficiency. Actually it has increased profit by about $1 billion with no noticeable increase in productive efficiency.

Mr. Griffin. That is all, Mr. Chairman.

Mr. Barrett. Admiral, you may continue now, if you desire.

Admiral Rickover. Yes, sir. I will discuss several issues relating to Government contracting.

Defense Department Too Greatly Influenced by Industry Viewpoint

I stated earlier that I believe the Department of Defense and the Department of Commerce are too much influenced by an industry viewpoint. I do not think that this is limited to the Deparment of Defense or the Department of Commerce. I think it pervades other parts of the executive branch as well. I also think this viewpoint is most pronounced in the area of Government contracting. Here, the exact opposite should be the case. In the area of Government contracting, the viewpoint should not be an industry one. Rather it should be strongly pro-Government in order to protect the interest of the public at large. Industry has a plethora of employees to protect its interests.

There is an extensive interchange of personnel between Government and industry. In some cases, this has resulted in situations where Gov-