

For instance, are you in the market to buy a Polaris submarine or a nuclear aircraft carrier, Mr. Chairman?

Mr. BARRETT. No.

Admiral RICKOVER. The items being advertised are Government property. The Government, consequently, derives no benefit from such advertising. The people who benefit from it are foreigners, not the people of the United States.

These advertisements also create a good image for the company, and help its stock.

I know this is not an easy problem to solve. I would normally be quite honored to have someone copy what I am doing technically. However, I am afraid we are giving away information which is going to hurt the people of this country.

It is difficult to try to control security through cost principles because of changes in accounting systems, overhead allocations, and so on. However, I believe certain actions can be taken at least to reduce the volume of advertisements, and place the burden of the cost of the remaining ones on the shoulders of those who derive the benefit from them.

First: A mandatory clause should be inserted in all contracts for procurement of military hardware requiring prior Government security clearance for all advertising. There is a clause in each of my contracts which requires that the company obtain Government approval prior to release of any information relating to work under the contract. Were you to read any of these magazines you would find no advertisements or technical data about naval nuclear powerplants.

Second: The Department of Defense should be required to extend the present Armed Services Procurement Regulation provisions which apply to reimbursement of advertising costs as an element of cost on any negotiated contract, except advertising paid from profits.

Third: Congress should require the General Accounting Office to undertake an investigation to determine just how much the Department of Defense is subsidizing contractor advertising costs and how effective the administration of the Armed Services Procurement Regulation provisions pertaining to reimbursement of advertising costs has been.

GOVERNMENT NOT ORGANIZED TO PROTECT ITSELF AGAINST CONTRACTOR CLAIMS

Mr. BARRETT. What about these large, after the fact, claims against the Government? Are these a problem in your area?

Admiral RICKOVER. Yes, sir. I am currently involved in a case that illustrates this problem very well.

The case involves several multimillion dollar contracts dating back to 1958. At that time, there was no Truth in Negotiations Act. However, on certain procurements for nuclear propulsion components, cost breakdowns were requested so that the Navy could test the reasonableness of price levels established through negotiations.

In response to these requests for cost breakdowns, a contractor submitted figures that indicated his prices included a 10 percent profit.

About 4 years later, in 1962, the General Accounting Office found that the contractor made actual profits of about 45 to 65 percent on these orders, and that he knew, or should have known at the time he submitted his cost breakdowns, that he would realize profits substan-