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AN HISTORICAL ANALYSIS OF THE EVENTS
LEADING TO THE ESTABLISHMENT OF THE
COST ACCOUNTING STANDARDS BOARD

By

OWEN BERNARD MOSELEY

Bachelor of Arts
Harding College
Searcy, Arkansas
1963

Master of Business Administration
University of Arkansas
Fayetteville, Arkansas
1966

Submitted to the Faculty of the Graduate College
of the Oklahoma State University
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Thesis Approved:

Milton F. Usery

Thesis Adviser
Leoman Beer

Joseph M. Jeddow

Alan Korman

Norman N. Durham

Dean of the Graduate College

997308

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CHAPTER I

INTRODUCTION

Government defense contracting is a multi-billion dollar annual activity. Speaking to the Ninth Annual Institute on Government Contracts Dallas, Texas, September 11, 1969, Elmer Staats stated:

Government procurement this year, to speak in general terms, is approaching a 60 billion dollar business. For fiscal year 1970 the total Government procurement budget for supplies, materials, and equipment amounts to more than 57 billion dollars. Approximately 86 percent of this amount is for national defense. This means that DOD's¹ procurement this year amounts to over 49 billion dollars.

In addition, Staats stated that 89 percent of defense procurements are on a negotiated, noncompetitive basis and more than one-half of the contracts are from a single source.²

In testimony before the House Committee on Banking and Currency, Admiral Hyman Rickover, U. S. Navy, cited problems resulting from this noncompetitive situation: (1) the substantially increased costs of procurement, (2) the difficulties in having contractors carry out defense work under contracts providing adequate safeguards to insure against excessive profits, and (3) Government agencies having to accept other contract terms substantially less favorable to the Government than was previously necessary.³ Rickover further stated that he believed the establishment of uniform accounting standards could save the Department of Defense \$2 billion a year.⁴

Rickover's testimony caused the Committee to doubt the

effectiveness of section 707 of the Defense Production Act. The pertinent part reads:

No person shall discriminate against orders or contracts to which priority is assigned or for which materials or facilities are allocated under title I of this Act or under any rule, regulation, or order issued thereunder, by charging higher prices or by imposing different terms or conditions for such orders or contracts than for other generally comparable orders or contracts, or in any other manner.

"Because of the apparent ineffectiveness of this provision," the Committee proposed that the General Accounting Office be "required to develop and recommend uniform accounting standards which would provide the Government with production costs and profits by individual order."⁶

In House debate some members claimed that the establishment of uniform accounting standards (sometimes referred to in the debate as either uniform procedures or uniform systems) would simplify the negotiation and audit processes relating to such Government contracts.

Various associations of Government contractors, individual industrial firms, and some Congressmen opposed the proposed establishment of uniform accounting standards. Initially, accounting organizations and Government agencies gave little or no support to the proposal. In spite of opposition by these various groups the Cost Accounting Standards Board (CASB) was established in August, 1970.

During its six-year existence, the CASB's impact has been significant. This is evidenced by the oral and written testimony presented at the first CASB Evaluation Conference held in Rosemont, Illinois, June 11, 1975. The agenda of the meeting was limited to the Board's regulations concerning contracting and disclosure requirements and Cost Accounting Standards (CAS) 401 through 406. Several companies, through their spokesmen, said that the lack of interpretative guidance on the

Board's Standards, Rules, and Regulations created significant problems. Lockheed Aircraft Corporation's testimony succinctly summarizes the concern expressed by other respondents.

We believe the most frustrating and difficult problem we have faced to date in the administration of CAS contracts is the absence of an effective source of authoritative interpretative guidance on CAS Standards, Rules and Regulations.

This problem is growing and is adversely impacting both the Government agencies and contractors alike. We think the CAS Board's assumed passive role in this regard is no longer appropriate and if not reversed will result in an implementation of its promulgations that is seriously lacking in uniformity and consistency.⁷

Several of the industry representatives indicated that Standards 401 through 406 have had minimal effects on their cost accounting systems or practices. However, the Board's impact is not always solely reflected in changes in cost accounting systems or practices. A representative of Martin Marietta Aerospace stated:

With respect to the topics to be reviewed, these promulgations have had relatively minor effect on our cost accounting practices. As of now, the principal effect of Cost Accounting Standards is the amount of effort that has been expended in studying and communicating regarding research of developments and implementing the Standards.

The impact of Cost Accounting Standards has proven not to be cost beneficial to us. Because the subject is so complex, those efforts involved in the Administration of Cost Accounting Standards have consumed the efforts of many of our highly competent and qualified personnel. To measure precisely the cost values of their associated efforts is impossible at this time. . . . We cannot see any benefit to us for having expended these substantial funds in this effort To date, there has (sic) been no demonstrable benefits and instead, significant indications of substantial increased costs to Government and to industry have materialized.⁸

Other industry representatives expressed similar views.⁹

Evidently, concerns expressed by industry representatives were not shared by the American Institute of Certified Public Accountants (AICPA). In a written statement presented to the Board, Donald J. Hayes, Chairman, Committee for Liaison with the CASB of the AICPA said:

While the Subcommittee has previously addressed concepts and possible implementation problems in its letters of comments on each of these standards when they were under consideration by the Board, our experience with the problems of their implementation derived in the course of annual examinations of contractors financial statements through 1974 has not been extensive. In part, this is due to the fact that, to a large extent, application of these standards in practice has not yet been challenged by audit. Also, since these standards have not had a major impact on the financial reporting process, audit engagements are not likely to produce substantial and detailed information of the type the Board desires.¹⁰

In contrast to this statement, Mr. Gerald E. Gorans, a member of the AICPA and partner-in-charge, Seattle office, Touche Ross and Co., . . .

stated in his oral presentation and in a later written statement submitted at the request of the CASB, that Standards (a) have begun to conflict with and to undermine the basic objectives of management information systems, (b) can have detrimental effects on business decisions, (c) in some cases, conflict with generally accepted accounting principles, and (d) in other cases are unnecessary.¹¹

The statement of the AICPA subcommittee reflects an apparent lack of concern of the impact, present or potential, of CASB regulations on financial reporting. As is indicated by Gorans' testimony, this lack of concern is not shared by all parties. In addition, the Aerospace Industries Association of American, Inc. (AIA) felt it advisable in May, 1975, "to bring to the attention of the senior officials of accounting firms auditing AIA companies the impact of Cost Accounting Standards on client companies as well as on the public accounting profession."¹²

AIA made available to Division A members copies of a 20 page document entitled, "Cost Accounting Standards and the Public Accounting Profession," and suggested that these members discuss the subject with the CPA firm's managing partner. The document includes sections describing the CASB background, the effect of CASB regulations on the clients of public accountants, the effect of CASB regulations on public

accountants, suggestions as to how the public accounting profession can help in solving some of the alleged problems created by the CASB, and conclusions concerning the involvement of the top management of accounting firms, the Financial Accounting Standards Board (FASB), and the CASB.

Originally, cost accounting standards applied to defense contractors and subcontractors with negotiated contracts of \$100,000 or more. Since passage of the law creating the CASB, the General Services Administration, by regulation, expanded the coverage of the law to apply to all negotiated Federal contracts of \$100,000 or more. In addition, in 1975, the Board "established an exemption for companies having no negotiated defense contracts or subcontracts in excess of \$500,000."¹³ However, this exemption applies only to new contracts.

Purpose of the Study

Federal laws and regulations having an impact on accounting policy were enacted by the United States Government during the last 65 years: e.g., Treasury Department regulations regarding depreciation and inventory methods, Security and Exchange Commission requirements regarding financial reporting, and the Congressional statement regarding the investment credit. One of the more recent laws, Public Law 91-379, established the CASB. The basic purpose of this study is to analyze the events leading to the establishment of the CASB and to seek to determine what caused Congress to establish the CASB.

As noted in the introduction, many individuals questioned the need for uniform accounting standards and yet Congress chose to establish the CASB. Six years after the Board's establishment, questions linger.

Not only has the need, the activities, and the methods of operation of the Board been questioned but the AIA has suggested "the need for an impartial, independent study to determine what the future of Cost Accounting Standards should be."¹⁴ An understanding of the past should provide a sounder basis for understanding the present and projecting into the future; thus the justification of the historical analysis made via this dissertation.

A systematic analysis by a disinterested party concerning the evolutionary aspects of the CASB is conspicuous by its rarity. Few authors have examined the significance of the relevant events that preceded the establishment of the CASB.

In carrying out the aim of this study, the development of the CASB will be viewed from a historian's perspective. Attempts will be made to explain the past and the present with respect to the CASB; to determine the economic, social, and political factors at work; to understand the roles played by various persons and organizations; and to understand why Congress made certain choices.

Research Methodology

The methodology used in this study relies heavily upon the seven postulates of historical investigation specified by Hexter:

1. That the object of investigation of historians, the human past, is incommensurably different from nature, the object of investigation of natural scientists;
2. That the special language of historical discourse is common language, not one of the uncommon languages characteristic of the natural sciences;

3. That the thrust of their special language requires historians to rely on common-sense judgments far more frequently than they do on strict logical entailments;
4. That the reliance of historical discourse on common language and common sense renders it inherently and inerradically valuative rather than value-free;
5. That in history credibility rather than necessary and sufficient causes provides the standard of adequacy of explanation;
6. That the exploration of truth values in historical discourse requires the examination of large historical texts and contexts and not just of minute fragments wrenched out of context;
7. That historical discourse is functionally processive rather than formally logical in two respects: (a) of affording readers enough to be going on with and (b) of dealing competently with evidence of change, becoming, or process in the human past.¹⁵

An analytical historical approach is used to achieve the aim of this study. The approach uses, but is not limited to, a combination of features common to the genetic methodology, the Hempelian methodology, the Collingwood methodology, and Hexter's historical storytelling. A basic description of each of these methods follows.

Nagel states:

a genetic explanation of a particular event is in general analyzable into a sequence of probabilistic explanations whose instantial premises refer to events that happen at different times rather than concurrently, and that are at best only some of the necessary conditions rather than a full complement of sufficient ones for¹⁶ the occurrences which those premises help to explain.

Hempel maintains that general laws have functions analogous in history as in the natural sciences.

Historical explanation, too, aims at showing that the event in question was not "a matter of chance," but was to be expected in view of certain antecedent or simultaneous conditions. The expectation referred to is not prophecy or divination, but rational scientific anticipation which rests on the assumption of general laws.¹⁷

Collingwood says that all history is history of thought and that to explain previous events the researcher needs to reenact the past in his own mind. This involves acquiring an awareness of the personalities of the individuals involved, of the situations confronting them, and it also involves an attempt by the researcher to put himself in the situation in which the events occurred.

Historical storytelling rests upon the seven postulates given on pages 6 and 7 of this study. The beginning point for the historical storyteller is an observation point, ". . . the place where he takes his stand and from which he surveys the record of the past in order to make the indispensable decisions on a sound rhetorical strategy for his story."¹⁸ A constant awareness of the outcome of the story aids the historian as he selects and evaluates actions that had a bearing on the event that is being explained. Selection of data for their bearing on the pivotal point of the historical study involves judgment, not bias.

In applying the analytical historical approach used in this study the investigator gives special attention to the nature of the testimony, the soundness of the testimony, and the credibility of the witnesses and members of Congress with respect to the technical nature of the subject matter.

Significance of the Study

Little, if any, research of the type undertaken in this study has been done in the past with respect to the CASB. As indicated in the introduction, various persons have raised questions concerning CASB activities and even the need for the CASB. This study represents an independent (in the sense that the author is neither an employee of the

Federal Government, a Government contractor, or any other firm dealing with the CASB) and objective (in the sense that the author has no vested interests in the outcome) examination of the events surrounding the creation of the CASB. The study does not try to justify the existence, nor necessarily question the existence, of the CASB but rather attempts to explain why it exists and also presents implications of its creation and existence.

Accountants, industry representatives, and Government officials may find that an understanding of how and why the CASB came into being can be very helpful in providing guidance in making future decisions if and when they are confronted with the possibility of additional Congressional legislation in areas which may affect accounting policy.

Scope of the Study

The time period covered by this study begins with events that occurred in the late 1950's and ends with the signing of the law creating the CASB in 1970. No effort is made in this study to go beyond the establishment of the CASB. Reasons for ending the study with the signing of the law creating the CASB in 1970 follow.

First, the principal purpose of this study is to critically examine the events leading to the establishment of the CASB. While the activities of the Board during the last five years are significant and provide fertile ground for research, both historical and nonhistorical, these activities are of an entirely different nature than those considered in this study and therefore not appropriate for inclusion.

The second reason relates to the methodology used in this study. With the exception of Congress, the study focuses on the actions and

oral or written testimony of a relatively small number of individuals. While the research method employed conceivably could be extended to the actions of the Board and its research staff, the limited resources available to this researcher preclude such a prodigious undertaking.

The primary data sources for this study are Congressional hearings, Congressional reports, the GAO Feasibility Study, and the Congressional Record. Biographical and socio/economic/political information will come from appropriate sources and for an appropriate time period in order to determine needed facts.

Organization of the Study

The introductory chapter sets forth the problem, the purpose of the study, the research methodology, the significance of the study, the scope of the study, and the organization of the study.

Chapter III will contain a description of the general features of historical methodology, a very brief description of several types of accepted historical methodologies, a detailed description of the genetic methodology, the Hempelian methodology, the Collingwood methodology, the Hexterian methodology, a description of the methodologies to be used in this study, and a statement of why the methods were chosen.

Chapter III will present the socio/economic/political setting and biographical view of major features having a role in the establishment of the CASB. This material will serve as a basis for attempting to determine the philosophy of the individuals and groups involved in events leading to the establishment of the CASB.

Chapters IV, V, and VI will contain the historical analysis of the events leading to the establishment of the CASB. The analysis will begin with the House of Representatives Committee Hearing of 1968 and

end with the signing of Public Law 91-379.

The final chapter will provide the summary, conclusions, implications of the research, and suggestions for further study.

FOOTNOTES

¹Elmer B. Staats, "Is It Feasible to Apply Uniform Cost Accounting Principles and Standards in Government Contracts?" The Federal Accountant, Vol. XVIII, No. 4 (December, 1969), p. 5.

²Ibid., p. 6.

³U. S. Congress, House of Representatives, Report to Accompany H. R. 17268, Report No. 1455 (Washington, D.C., 1968), p. 4.

⁴U. S. Congress, House Committee on Banking and Currency, Hearings to Renew the Defense Production Act of 1950, as Amended (Washington, D.C., 1968), p. 107.

⁵U. S. Congress, House of Representatives, Report to Accompany H. R. 17268, p. 4.

⁶Ibid.

⁷U. S. Government, Cost Accounting Standards Board, "Evaluation Conference on Promulgated Standards and Regulations," (Transcript of the Cost Accounting Standards Board Evaluation Conference on Promulgated Standards and Regulations, Rosemont, Illinois, June 11, 1975.)

⁸Ibid., pp. 313-314.

⁹The reader interested in these views and other criticisms of CASB activities is referred to the transcripts of the Evaluation Conference.

¹⁰"Evaluation Conference," p. 271.

¹¹Aerospace Industries Association of America, Inc., Summary Analysis of First Evaluation Conference Cost Accounting Standards Board (Washington, D.C., 1975), pp. iii-iv.

¹²Karl G. Harr, Jr., "Admin. Memo No. 75-40," Aerospace Industries Association of America, Inc., Washington, D.C., May 13, 1975.

¹³Cost Accounting Standards Board, Progress Report to the Congress 1975 (Washington, D.C., 1975), p. 14.

¹⁴"Evaluation Conference," p. 236.

¹⁵J. H. Hexter, The History Primer (New York: Basic Books, Inc., 1971), p. 275.

¹⁶Ernest Nagel, The Structure of Science (New York: Harcourt, Brace & World, Inc., 1961), p. 568.

¹⁷Carl G. Hempel, "The Function of General Laws in History," in Theories of History, ed. Patrick Gardiner (Glencoe, Illinois: The Free Press, 1959), pp. 348-349.

¹⁸Hexter, pp. 171-172.

CHAPTER II

METHODS OF HISTORICAL STUDY AND ANALYSIS

Introduction

Chapter I indicated that some types of historical research methodologies are used in conducting this study. Chapter II, which provides a description of some of the methods of historical study and analysis, is presented for the following reasons: (1) The use of historical techniques and approaches is to a large extent an untapped and unappreciated area for many researchers and it is hoped that this chapter will provide a description that will enable the reader to appreciate the value and complexities of this type research. (2) As in other types of research, competing philosophies and approaches exist from which one must choose and this chapter highlights some of the competing philosophies and approaches to give the reader an awareness of the concepts and methods available to the historian. (3) This chapter develops the philosophy and approaches used in this study.

This chapter presents the methods of historical study and analysis using the following format: (1) Limitations of Historical Methods, (2) General Features of Historical Methods, (3) Assessments vs. Conclusions, (4) History vs. Natural Science, (5) Some Specific Philosophies of History, (6) Specific Methods of Historical Analysis, and (7) Methodology Used.

Limitations of Historical Methods

Introduction

In some respects the research problems faced by the historian are analogous to those encountered by any researcher; in other respects the problems are unique. Since some of the problems are of a different nature, it follows that the analysis may also differ. An awareness of the similarities and differences is indispensable to a proper understanding of historical analysis. This section presents the fundamental problems of historical study and analysis and provides the basis for the methodology used in this study.

Selection of Variables for Study

As in all research, one of the most difficult tasks confronting the historian is determining what aspects of a subject to study. It is impossible to exhaust a subject; in most cases the researcher will restrict his study to biographical details of the principal parties, the economic or social factors present at the time in question, the political forces at work, or a combination of some or all of these variables. The problem of selection is usually resolved when the researcher selects for study those aspects of the problem that are of greatest interest to him. Inherent in the selection process is the omission of certain facts. It is not a question of whether facts will be ignored; but rather, what facts. If the historian fails to be selective in his definition of the problem for study, he may assemble too much detailed data and be unable to perform a proper analysis and arrive at meaningful conclusions.

It is at this point that, to some extent, subjectivity and

arbitrariness are present. The historian, in limiting his problem, is not able to consider everything. But is it necessary to know everything in order to understand? Suppose someone asked for a description of the campus of Oklahoma State University. How much purposeful knowledge is conveyed if the description contains details of the number of windows in each building, the number of rooms in each building, the number of parking spaces available, and the total number of bricks used in all buildings on campus? It might be argued that this example is absurd! However, it is not absurd if it is assumed that knowledge of a subject matter must be identical with that subject matter or must in some way reproduce it.¹ It makes more sense to argue that the assumption is absurd.

At some point, determined by a subjective opinion tempered by common sense, a person would develop a meaningful and purposeful description of the campus of Oklahoma State University. Likewise, subjectivity and arbitrariness play a part in decisions made by the historian as to what to include in this study.

Repeatability of Historical Events

In a laboratory setting or computer simulation it is possible to repeatedly set up an experiment and determine what happens as a result of changing the composition of the variables involved. In some social science research, historical analysis in particular, laboratory experiments cannot be conducted to confirm that a given event or institution resulted from a given set of events or variables since no possibility exists of completely reproducing the situation or setting that produced the event or institution. This is not to say that there

are no historical methods for confirming that certain events or actions resulted in certain other events or institutions; rather this merely ". . . points to a genuinely distinctive feature of the subject-matter and consequently the methodology of the historian"2 Unlike the natural and physical sciences, the historian does not have a body of general laws with which to develop explanations of past events.

Observability of Past Events

It is a well established fact that the actions and events that a historian describes explains, and interprets cannot be directly observed. Upon what then does the historian base his descriptions, explanations, and interpretations? Primarily, there are three basic sources available to the historian for such analyses: (1) His own personal memory, (2) The memory of others, and (3) Various types of documents and written or orally recorded testimony.

When a historian relies upon his own memory, he must be aware that . . . "it is his present memory with which he begins and whose accuracy he must evaluate"3 Likewise, it is the present memories of others he is relying on if he is involved in interviewing or questioning them and he must evaluate the accuracy of such memories.

Old people's recollections are notoriously fallible. Some years ago a graduate student in The Ohio State University personally interviewed an aged politician concerning his attitude toward Mr. Bryan during the campaign of 1896, and was informed by the gentleman that he had been unable to follow Mr. Bryan's leadership. Later the student found contemporary accounts of speeches by this Ohio politician advocating Mr. Bryan's election.⁴

The fallibility of memory is not limited to older persons; Watergate attests to this fact.

Memories are often colored by events that occur between the point of time in question and the present. In most cases, the recorded statements of the parties that were involved provide a more accurate basis for analysis than their present recollections of past events.

If the historian has no personal memory of the past events in question and if he seriously questions the validity of relying upon the memories of others, he is faced with problems relating to describing, explaining, and interpreting past events on the basis of the oral or written evidence of the past that is currently present. Any knowledge we have of the past rests upon the evidence that is presently available. The task of the historian is to carefully examine this evidence to determine its validity. In many cases the available evidence is so plentiful and has so many facets that the historian lacks the sufficient knowledge and imagination to properly analyze and interpret it.

Analysis of Human Beings and Change Through Time

One thing is common to many formal definitions of history: the inclusion of the human aspect. Hexter states that history "means any patterned, coherent account, intended to be true, of any past happenings involving human intention or doing or suffering."⁵

. . . Pirenne suggests to us the individual qualities of mind that must have been responsible for the economic development that his story unfolds: initiative, courage, desperation, sense of the main chance, flair for leaping on the bandwagon, whether displayed by a Lincolnshire peasant or a Flanders merchant or a Scandinavian navigator linking western European trade with the Black and the Caspian seas! Pirenne's book is, no doubt, generally prized for its brilliant correction of a number of long-standing prejudices and errors regarding mediaeval economic institutions, but few works of history convey better the truth of the dictum that it is men who make history. To understand what happened in a given economic epoch we must certainly appreciate first what possibilities of expansion it actually contained: but those limits once grasped, our understanding of

what was accomplished must be in terms of the choices and deeds, even if largely conjectured, of individual men, even if their names have usually been forgotten.⁶

These quotations emphasize the role of man in history. Because of the highly significant role that man plays in history the historian must be aware of forces that help to shape human behavior. The historian must not only be cognizant of present day aspects of behavior but also of aspects of the past.

In essence, the historian must attempt to provide an adequate description, explanation, and interpretation of human behavior and activity over time. His analysis should include the following functions; all of which introduce obvious problems: (1) ascertain what has happened, (2) identify events in sequence, (3) analyze interrelationships among those events, and (4) discover how and why they occurred in a given order.⁷

In many cases, ascertaining what happened or identifying the sequence of events that led to the happening are not difficult tasks. Problems arise when an attempt is made to investigate interrelationships among events. Not only must the historian be familiar with relationships existing between events, but also he must appreciate that events "are related by their position in time" ⁸ Historical development is a dynamic process; the investigator must recognize this fact and give consideration to it in his analysis.

Discovering how and why events occurred in a given order may require a study of the parties responsible for the events taking place. According to Collingwood, "The cause of the event, . . . , means the thought in the mind of the person by whose agency the event came about" ⁹ If Collingwood is correct, then seemingly when one is able to understand

the variables affecting the behavior of the responsible parties, he is nearer to an explanation of why events happened in a certain sequence. An additional problem arises--how does one show that a particular variable caused a historical character to behave in a certain manner?¹⁰

General Features of Historical Methods

Introduction

Before selecting his method of analysis the investigator should recognize there is no such thing as THE method. The objective of the study will determine the method used by the researcher. There are many approaches available and the particular nature of the research may suggest one approach is more appropriate than others. The researcher should choose a method that employs concepts which aid in discriminating: to decide what is or is not significant, to aid in systematic appraisal, and to aid in the evaluation of changes over time.¹¹

Causation

The Committee on Historiography of the Social Science Research Council states that the "fundamental problem of historical study is the analysis of change over time."¹² When the historian attempts to evaluate changes over time he is involved in causal analysis: what caused the changes to take place?

In attempting to answer this question the historian faces a host of types of causes: greater causes, lesser causes, more important causes, most important cause (or key cause), the immediate (or precipitating) cause, underlying (or basic) causes, necessary conditions, and sufficient conditions. The investigator must exercise judgment in investigating causes.¹³ Distinguishing between greater and lesser

causes is relatively easy in many cases. Trying to identify a factor as the most important or key cause is a very troublesome problem.

Ernest Nagel says an immediate cause of an event

is usually some occurrence of relatively short duration that initiates the collective one; it may be a "natural event" (e.g., a cataclysmic earthquake), an individual action (the deed of an assassin), or a collective happening (a military defeat). The underlying causes to which historians frequently refer are commonly designated, in obviously metaphorical terms, as "social forces" and are constituted out of relatively enduring modes of action as well as of less normal forms of behavior which¹⁴ are manifested by various groups of anonymous individuals.

Social forces related to this study include such things as the existing political conditions; the social attitudes toward the military, industry, economic conditions; and "the operation of various beliefs, ideas, and aspirations as manifested in the attitudes and activities of those who entertain them."¹⁵

To gain a proper understanding of historical events, the historian looks at the structure of the situation in which events took place.

"The degree and mode of organization in a situation is its structure."¹⁶

An interdependency exists between the social organizations of which an individual is a member and his observed behavior. Power-wielding groups influence individual behavior; likewise, cultural forces, other social forces, and individual behavior affect power-wielding groups.

In addition to looking at the structure of the situation, the historian may elect to view historical events in terms of process. This involves a careful examination of the changes in a structure. An awareness of the changes in the structure helps the historian to see various interrelationships and provides insight into the possible underlying causes of the observed actions or events.

It should be obvious that in determining the causes of human actions

of the past the first step is not a close scrutiny of the documents but rather an informed understanding of the social forces at work. Understanding present human behavior helps in developing an understanding of the particular social forces that caused past human actions. In addition to identifying the social forces, it is important that the historian determine that they were present when the action was taken. Too, the presence of a factor does not necessarily mean it was causally operative. For example, it may be determined that an individual or group had a certain disposition. To say that an action displayed by an individual or a group resulted from the identified disposition may be an unwarranted conclusion because something else may have caused the action. This being true, the question arises as to how the researcher can impute causation to a particular human action or event. Negal states:

By assuming that when the given factor is a circumstance under which men act, they generally conduct themselves in a manner similar to the particular action described in the imputation, so that the individual discussed by the historian presumably also acted the way he did because the given factor was present. In short, generalizations of some sort are required in historical explanations of individual actions.¹⁷

In addition to the awareness that not all conditions present may be operative, the historian must realize that he is not searching for all the causes; but rather, the meaningful causes. How can the historian differentiate true and spurious causes? The use of the logician's definition of the cause of an event may be helpful: The cause of any event is the sum of the necessary and sufficient conditions for the event's occurrence. A necessary condition exists if the event could not have taken place without its occurrence. A sufficient condition is present if its occurrence is enough to cause the event to take place.

The following example illustrates the application of testing between true and spurious causes.

In the early weeks of the war the German government published a collection of documents intended to prove that the Poles had been guilty of atrocities against the German minority living in Poland. According to the Germans, these atrocities cried out for German intervention, thus were the real cause of the war. There are two problems here. Did such atrocities actually occur, or was the evidence of the German documents fabricated: This is a problem of historical fact.... But the other problem is one of causation. Even if such incidents actually occurred, were these the necessary and sufficient condition for the German action? On this, the evidence from captured German documents seems clear. Hitler was determined to seize Polish territory in any case, and the alleged atrocities served as a pretext rather than a true cause for his action.¹⁸

This example also illustrates the post hoc, ergo propter hoc fallacy (after this, therefore because of this).¹⁹ Merely because events follow one another in time does not mean that one event caused another event. To impute causation, a logical relationship must be established.

Finally, in undertaking a causal analysis the historian must realize that the analysis may not produce definitive results. In many cases the nature of the evidence may be such that it does not yield complete knowledge concerning the subject in question. At times like this the researcher must willingly admit that he does not have the answer.

Assessments vs. Conclusions

Introduction

"The historian, like the general or the statesman, tends to assess rather than to conclude."²⁰ The historian can never examine all the variables and the nature of his research is such that he can never conclude he has found the cause of an event. In assessing, he is judging

the relative importance of various factors upon the event in question. This judgment may lead to a conclusion in the sense that an opinion is formed but not in the sense that a final answer is determined.

The primary concern of the historian is not to establish general statements testable by experimentation but to develop explanations about the actions of certain persons and/or certain events. In some instances the historian is unable to make an assessment and therefore fails to provide an explanation. In any assessment or conclusion the historian makes, judgment is involved and the question of objectivity is raised.

Objectivity

Hexter states in his seven postulates of historical investigation that the "...reliance of historical discourse on common language and common sense renders it ... valuative rather than value-free."²¹ Does this statement imply that the historian cannot be objective in his search for the truth? Is there any sense in which the historian can be objective?

Included in Webster's definitions of objective are the following:

1. of or having to do with a known or perceived object as distinguished from something existing only in the mind of the subject, or person thinking ...
4. without bias or prejudice; detached; impersonal.²²

The Committee on Historiography says that objectivity "need not be equated with certainty and completeness of knowledge."²³ In many cases researchers in the natural sciences settle for less than full certainty and completeness of knowledge in forming their conclusions concerning their findings. Too, in conducting their research they often rely on value judgments in selecting the variables they feel are important to the solution of the problem. In the same way the historian

introduces his biases and prejudices into his research.

In the senses discussed above it seems that neither the historian nor the scientist is completely objective in his research. However, there is an important sense in which both researchers can be objective.

Objectivity requires us to be prepared on the basis of the evidence to abandon our most cherished hypothesis. One must, therefore, distinguish the subjective element in objective investigation to prevent distortion through bias. Distortion does not necessarily follow even though values influence the choice of hypotheses and the selection of data.²⁴

In order to be objective, in this sense of the word, and to limit the amount of distortion present, the historian must be sure that the data and factors he selects for examination are relevant to the situation and that they are consistent with other evidence. Admittedly, his selection process is influenced by value judgments and his language consists of many words which carry value overtones. Without the use of value-words in the description of his analysis the historian would have an even more difficult task in trying to create in the minds of the readers mental images of an action or event he has developed in his own mind.

Perhaps the use of value judgments has some other commendable qualities. Coats ...

pointed to the fertility of conjectural hypotheses that were nonempirical; by such "unsupported theories" historians have discovered new facts and relationships. Moreover, he doubted whether a hypothesis applied with cold neutrality "could yield that full insight of which it is capable when it is the deep conviction of an original mind."²⁵

Even though disagreements exist as to the desirability of the use of value judgments in historical research, there is agreement that historians and nonhistorians do make such judgments. Perhaps it is just a question of the extent of usage. In any case, the salient point the researcher must remember is to make it clear to the reader when value

judgments are present. "The safeguard against bias in the writing of history, as in the natural sciences, is not to indulge in useless resolutions to be free of bias but rather to explore one's preconceptions, to make them explicit, to consider their alternatives"²⁶

Historical Criticism

In his quest for truth the historian faces problems similar to those facing the auditor in his internal control review and in his audit. The historian must maintain a doubting attitude toward any documents or evidence he examines until he has critically tested them with both external and internal criticism.

The purpose of external criticism is to determine the origin and authenticity of the document being examined. Questions to be considered include the following: Who was the author? When was it written? How does one detect spurious documents? Has the original form been corrupted?²⁷

External criticism can be viewed as a macro-type approach of investigation and internal criticism as a micro-type approach. External criticism is concerned with the documents as a whole.²⁸ Internal criticism centers its attention upon statements within the documents and the historian attempts to "determine the meaning and trustworthiness of statements"²⁹ Internal criticism is sometimes divided into two kinds--positive criticism and negative criticism.

Positive criticism involves an attempt by the historian to determine the meaning of a statement as intended by the person making the statement. The historian must be careful that he does not impute meaning to a statement which the maker did not intend to convey.

Positive criticism begins with a determination of the literal meaning of statements.³⁰ The historian is especially alert for the use of technical terms, unfamiliar terms, and familiar terms used in an unfamiliar sense. A proper understanding of the terms, as they were literally used, enables the historian to have a better basis for a correct explanation of an historical happening.

After the historian determines the literal meaning of statements he next attempts to uncover the real meaning of the statements. In some cases difficulty arises in trying to distinguish the literal and real meaning of a statement.

Misunderstandings are not easy to avoid. It is nearly always difficult to determine exactly what meaning figurative language is intended to convey, and often, indeed, not even easy to recognize a figure of speech. Preceding the House election of 1825 John Quincy Adams, as his diary records, received an anonymous letter from a partisan of a rival candidate threatening to "raise the standard of revolt and civil war" if his favorite was defeated. These words might have expressed the actual intent of the writer or merely threatened persistent political opposition, such as, in fact, followed Adams's election.³¹

It is apparent that the historian must exercise sound judgment in determining the literal and real meaning of historical statements.

Having determined what statements say and mean, the historian faces the problems of negative criticism--determining the credibility, truthfulness, reliability, and trustworthiness of statements. Negative criticism includes such problems as attempting to determine if the author of a statement was competent to make such a statement, and whether there were any personal or social factors in his background which would tend to negate the value of his testimony. Langlois and Seignobos say that the historian " ... ought to distrust a priori every statement of an author, for he cannot be sure that it is not mendacious or mistaken.

At best it affords a presumption."³² Shafer provides the following checklist for internal criticism that aids researchers and points out that while all steps will not apply to all items of evidence there may be some points that need to be considered which are not contained in the checklist.

1. Is the real meaning of the statement different from its literal meaning? Are words used in senses not employed today? Is the statement meant to be ironic (i.e., mean other than it says)?
2. How well could the author observe the thing he reports? Were his senses equal to the observation? Was his physical location suitable to sight, hearing, touch? Did he have the proper social ability to observe: did he understand the language, have other expertise required (e.g., law, military); was he not being intimidated by his wife or the secret police?
3. How did the author report?, and what was his ability to do so?
 - a. Regarding his ability to report, was he biased? Did he have proper time for reporting? Proper place for reporting? Adequate recording instruments?
 - b. When did he report in relation to his observation? Soon? Much later?
 - c. What was the author's intention in reporting? For whom did he report? Would that audience be likely to require or suggest distortion to the author?
 - d. Are there additional clues to intended veracity? Was he indifferent on the subject reported, thus probably not intending distortion? Did he make statements damaging to himself, thus probably not seeking to distort? Did he give incidental or causal information, almost certainly not intended to mislead?
4. Do his statements seem inherently improbable: e.g., contrary to human nature, or in conflict with what we know?
5. Remember that some types of information are easier to observe and report on than others.
6. Are there inner contradictions in the document?
7. Are your own biases or preconceptions distorting your view of the document or the exact statement in it?
8. Consult reference works as required to resolve doubts.

9. Does the statement leave you sufficiently confident of your knowledge of that detail so that no corroboration is required?³³

An examination of the above series of questions and statements reveals that internal criticism relates to both the author of the documents being examined and the historian performing the investigation. The investigator must constantly guard against letting his own biases or preconceptions distort his view of the document or statements contained therein. An example of what can happen when the investigator fails to properly interpret authentic documents follows.

... United States Senator James Eastland of Mississippi a few years ago made a speech in the Senate in which he cited "evidence" and statistics (often so convincing to the uncritical) to give the impression that judges of the Supreme Court under Earl Warren were procommunist. Eastland based his charge on voting behavior in 1953-62, which he asserted showed that Warren voted "pro" communist in 62 of 65 decisions, that Justice Black "supported" the position of the Communist Party in all (102) of his decisions, and that Justice Douglas "reached a conclusion favorable to" the Communist Party in 97 of 100 cases. Eastland's speech offered no real basis for such assertions. Also, it ignored the complicated question of jurisprudence involved in the cases before the court, reducing everything to a simplistic and unreal division into "for" and "against" communism. The latter was not the issue in the cases, and Eastland ignored the great constitutional issues that were involved.³⁴

Gottschalk characterizes the historian as being a combination prosecuting attorney, defense attorney, judge, and jury.³⁵ In this combination of roles the historian examines each statement of each document to determine the credibility of the statement. Gottschalk states that a statement is credible as historical evidence if the statement passes the following four tests.

1. Was the ultimate source of the detail (the primary witness) able to tell the truth?
2. Was the primary witness willing to tell the truth?

3. Is the primary witness accurately reported with regard to the detail under examination?
4. Is there any independent corroboration of the detail under examination?³⁶

In addition to Shafer's checklist, Gottschalk gives five conditions that he feels are favorable to credibility when present and also generally easy for the historian to recognize: (1) The witness is likely to be unbiased when the purport of the statement is a matter of indifference to the witness; (2) The statement is probably truthful when it is in some way prejudicial to the witness; (3) If the matters under consideration are of common knowledge, it is improbable the witness would be mistaken or attempt to mislead; (4) Some statements are both incidental, in the sense of being of secondary importance, and probable to such an extent that the probability of error or an attempt to mislead appears small; and (5) Statements have a high degree of credibility when a witness gives testimony that is contrary to the testimony one would expect the witness to give.³⁷

Both Shafer and Gottschalk mention the idea of corroboration in their discussion of internal criticism. Murphey succinctly describes this idea as follows.

Where independent observers who are individually credible witnesses agree as to what occurred, that upon which they agreed is regarded as fact, and the more independent witnesses there are, the higher the certainty is supposed to be. Conversely, the testimony of a single witness, however credible, is never regarded as sufficient to establish a matter of "fact," and the matter in question may be referred to only as the witness's opinion.³⁸

Notice that Murphey's description begins with "Where independent observers who are individually credible witnesses agree as to what occurred, that upon which they agree is regarded as fact," There are cases where a lack of independence between observers results in agreement as to what occurred. Also, there may be other reasons why witnesses who

agree may not be credible.

If ten different parties agree concerning a particular matter, it may or may not establish a matter of fact. The ten parties may be unacquainted with the underlying background of the situation. Too, it sometimes happens that "A" makes his investigation and determines what he believes the facts to be and then other parties (due to indifference, respect for or confidence in A) rely on the judgment of A and do not make their own observation. Instead of having ten observations of a single situation we have one observation of that situation. Agreement exists, but the agreement is not conclusive in establishing a matter of fact. Conclusive agreement only results from independent observations. The question thus becomes--when are observations independent? Langlois and Seignobos state: "The only observations which are certainly independent are those which are contained in different documents, written by different authors, who belonged to different groups, and worked under different conditions. Cases of perfectly conclusive agreement are thus rare, except in reference to modern periods."³⁹

When the statements of two or more parties do not agree it does not necessarily reflect unfavorably upon the credibility of either party. Contradiction between statements sometimes is illusory rather than real. The lack of agreement is illusory when statements do not relate exactly to the same unique features of a particular observation. Therefore, the historian must determine whether the individual statements relate exactly to the same unique features of a particular observation. Only then can he determine if the contradiction is in fact real.

If he determines the contradiction is real, he faces the problem of deciding which statement(s) is/are true. At this point the historian

examines all of the evidence relating to the statements and decides which statement has the greater probability of being true. He may be unable to reach a definite conclusion.

Historical criticism, consisting of both external and internal criticism, forms the foundation for any method of historical analysis.

History vs. Natural Science

Introduction

No matter what method of analysis the historian uses, it is clear that some overriding philosophy guides his thinking. In many cases he may not give conscious thought to his philosophy, perhaps because it has become such a part of his nature, but the fact remains--he is guided by some philosophy. This philosophy serves as his criterion for developing form and meaning for his explanation.

Philosophers of history have written profusely as to whether history is a science. One group of philosophers (Popper, Hempel, and others) has viewed explanation in history as being analogous to explanation in the natural sciences. As such they assume that " ... all explanation takes the form of relating one event, ..., to another event or set of events which 'cause' or 'condition' it.⁴⁰ The basic thesis of this group is succinctly stated by Gardiner as follows.

Hume argued that when we are said to explain an event, we refer to another event, or set of events, of a type which has always been observed in our previous experience to accompany the type of event to be explained. Another way of putting this is to say that an event is explained when it is brought under a generalization or law. It becomes an instance of a general rule stating that, given the presence of certain initial conditions, events similar to the one to be explained will occur. Such a rule or universal hypothesis may be regarded as asserting a regularity of the following type: whenever an event of a specified kind C occurs at a certain place and time, an event

of a specified kind E will occur at a place and time which is related in the specified manner to the place and time of the first event. Thus the explanation of a given event consists in (1) stating a universal law, or set of laws, (2) the existence of a set of initial conditions C1 Cn, so that from these two statements a third statement describing the event in question follows.⁴¹

This basic thesis is the foundation upon which Hempel (and others to a lesser degree) argues that " ... general laws have quite analogous functions in history and in the natural sciences, that they form an indispensable instrument of historical research, and that they even constitute the common basis of various procedures which are often considered as characteristic of the social in contradistinction to the natural sciences."⁴²

Hempel's argument is primarily in response to Collingwood's claim that history is a kind of "empirical knowledge which could not be accounted for by the methods empiricists were willing to allow."⁴³

Leading proponents of this idea and reactionists to Hempel include: Collingwood, Dray, and Hexter. A discussion of the salient features of ideas of Hempel, Collingwood, Dray, and others is delayed until after a brief presentation contrasting some of the general features of history and science.

Data Selection Basis

Rickert claims that the ... "principal of selection that governs historical thought and writing is of an entirely different sort from that employed in the natural sciences."⁴⁴ Selection of data by the scientist is guided by universal laws he believes hold between the general properties of those data. Selection of data by the historian is governed mainly by his interest in a subject; e.g., institution,

individual, or event. The subject being studied is the center of attention and the basis for inclusion or exclusion of data. The historian selects data he thinks will be helpful in understanding and explaining his subject. His data selection process is not guided by universal laws.

Evidential Base

The scientist enjoys what, from the viewpoint of the historian, might be considered a luxury. When a chemist combines two parts hydrogen and one part oxygen he gets water. He can repeat this process over and over and thereby add to the record confirming the explanation of the formation of water. In addition, the chemist has the option of trying various combinations of hydrogen and oxygen to see if water results. Too, he can add other chemicals to see their effect, if any, on the process of forming water.

The evidential base of the historian allows no such experimentation. In explaining the cause of World War II the historian cannot recreate the actual situations that existed; nor can he assemble a similar situation. Also, he cannot manipulate the variables that were present to see the effect of such manipulation on the outcome.

Historical Subject Matter

The previous two sections indicate that the basic difference generally seen between explanation in history and the natural sciences reduces down to the subject matter of history. Is history autonomous? Is there a world of history and a world of science? Patrick Gardiner, in The Nature of Historical Explanation devotes a chapter to a discussion

of these questions. This chapter is built around four propositions frequently used to support the idea that history is an autonomous branch of study:

- A. Historical events are past events and hence cannot be known in the manner in which present events are known.
- B. Historical events are unique and unclassifiable.
- C. History describes the actions, statements, and thoughts of human beings, not the behavior of "dead matter" with which science is concerned.
- D. Historical events have an irreducible richness and complexity.⁴⁵

Gardiner says that we may conclude, if we choose, ... "that the subject matter of history is different from that of science."⁴⁶ Care must be exercised however because: "The world is one: the ways we use to talk about it, various. And the fact that in some cases we decide to describe it in one way rather than another is contingent upon our purposes."⁴⁷

Basic Difference Between Scientist and Historian

Gardiner believes that the crux of the distinction between the scientist and the historian is as follows. "The scientist frames hypotheses of precision and wide generality by a continual refining away of irrelevant factors." The historian, on the other hand, talks ... "about what happened on particular occasions in all its variety, all its richness, and his terminology is adapted to this object."⁴⁸

Hexter takes a little different view in his statement of the major difference between science and history. Using an example involving a six year old boy he shows how the boy performs highly complex historical operations but cannot perform relatively simple mathematical-scientific operations. Historical explanations are relatively easy because most people have been giving explanations of past events all of their lives; most people generally have a sufficient amount of data, or it is readily

obtainable, to explain any historical matter that may confront them; and, the language of historians is the common language.

Alternatively, scientific explanations are foreign to most individuals because they do not perform scientific experiments and give scientific explanations often, if ever; they do not have the data, or access to the data; and the sciences have technical languages unknown to the common man.

Hexter makes the following statements in contrasting science and history.

The highest attainments of science give us a sense of discovery through innovation. What was hidden is suddenly uncovered by men who have done something radically new. The better works of historians impart to us a sense of recognition achieved through renovation. By clearing away so confusing rubbish, a good historian enables us to see clearly what we already dimly sense might be there Each point about it has just that air of obviousness which everyone can agree to, but which no previous writer seems to have attained Between the scientists' "Is that a legitimate logical or mathematical inference?" and the historians' "Does that make sense?" there is a world of difference. To say this is not to depreciate the work of professional historians. They do what is appropriate to their calling.⁴⁹

The above discussion of history vs. science is by no means exhaustive. It is merely presented to give the reader, unfamiliar with the philosophy of history, a glimpse of the highly controversial nature of this subject matter and to prepare him for a review of the basic tenets of the specific philosophies of history which follow.

Some Specific Philosophies of History

Inside-Outside

Collingwood reacts to philosophers who hold the view that historical knowledge is a type of empirical knowledge that can be explained by

methods used in the natural and physical sciences. He maintains that the

... science of human nature was a false attempt--falsified by the analogy of natural science--to understand the mind itself, and that, whereas the right way of investigating nature is by the methods called scientific, the right way of investigating mind is by the methods of history. I shall contend that the work which was to be done by the science of human nature is actually done, and can only be done, by history: that history is what the science of human nature professed to be, and that Locke was right when he said (however little he understood what he was saying) that the right method for such an inquiry is the historical, plain method.⁵⁰

The basic reason Collingwood thinks methods different from those used in the natural sciences are needed in explaining history is that he thinks the subject matter is different. Collingwood presents the following idea:

For science, the event is discovered by perceiving it, and the further search for its cause is conducted by assigning it to its class and determining the relation between that class and others. For history, the object to be discovered is not the mere event, but the thought expressed in it. To discover that thought is already to understand it.⁵¹

Collingwood's method has been labeled by some the "Inside-Outside Theory of Human Events." In contrasting human nature and human history Collingwood gives the following example to illustrate his conception of how a historian investigates his subject matter.

The historian, investigating any event in the past, makes a distinction between what may be called the outside and the inside of an event. By the outside of the event I mean everything belonging to it which can be described in terms of bodies and their movements: the passage of Caesar, accompanied by certain men, across a river called the Rubicon at one date.... By the inside of the event I mean that in it which can only be described in terms of thought: Caesar's defiance of Republican law, or the clash of constitutional policy between himself and his assassins. He is investigating not mere events (where by a mere event I mean one which has only an outside and no inside) but actions, and an action is the unity of the outside and inside of an event. He is interested in the crossing of the Rubicon only in its relation to Republican law, and in the spilling of Caesar's blood only in its relation to a

constitutional conflict. His work may begin by discovering the outside of an event, but it can never end there; he must always remember that the event was an action, and that his main task is to think himself into this action, to discern the thought of its agent.⁵²

In continuing this line of reasoning Collingwood states:

The processes of nature can therefore be properly described as sequences of mere events, but those of history cannot. They are not processes of mere events but processes of actions, which have an inner side, consisting of processes of thought; and what the historian is looking for is those processes of thought. All history is the history of thought.⁵³

The crux of Collingwood's approach is the inside of an event. To be aware of the inside of an event the historian must discover the thoughts of the individual who performed the action which created the event. This requires, to some extent, a reenactment, a reliving, a recreation, a rethinking. Somehow, the historian must rethink the thoughts of the subject in question. How can this be done?

To achieve this, Collingwood believes the historian must reconstruct the situation as it existed and he must perceive the manner in which the agents of the actions envisaged it. In rethinking the event he must see the alternatives available to the agent, the possible outcomes of each alternative, and the reasons for choosing one alternative over the others. Only when the historian utilizes all of his accumulated knowledge concerning the situation and the agents involved is he able to do this. By reenacting past thoughts in his own context the historian also is able to critically evaluate the thoughts.⁵⁴

Covering Law

Hempel reacts to Collingwood and those who hold views similar to Collingwood by arguing that "... general laws have quite analogous functions in history and in the natural sciences, that they form an

indispensable instrument of historical research, and that they even constitute the common basis of various procedures which are often considered as characteristic of the social in contradistinction to the natural sciences."⁵⁵ Hempel frequently uses the term "universal hypothesis" instead of "general law." In an article entitled "The Function of General Laws in History" Hempel states:

... a universal hypothesis may be assumed to assert a regularity of the following type: In every case where an event of a specified kind C occurs at a certain place and time, an event of a specified kind E will occur at a place and time which is related in a specified manner to the place and time of the occurrence of the first event. (The symbols "C" and "E" have been chosen to suggest the terms "cause" and "effect," which are often, though by no means always, applied to events related by a law of the above kind.)⁵⁶

In the natural sciences the primary function of general laws is to enable the experimenter to predict and provide causal explanations. The explanation of the occurrence of an event, E, is usually stated in terms of the factors causing E. If it can be said that a certain set of events (C₁ ... C_n) caused the event which is being explained to happen then it can be said that, "according to certain general laws, a set of events of the kinds mentioned is regularly accompanied by an event of kind E."⁵⁷ A scientific explanation then consists of three things: (1) A specification of the relevant boundary conditions; (2) A specification of all relevant general laws; and (3) A specification of the relevant boundary conditions and general laws in such a manner that leads naturally to the explanation.

Hexter illustrates Hempel's, so-called covering law, model in a historical setting by looking at the population change in four lands in the same region over an identical time period. In countries I, III, and IV the population increased but in country II the population decreased.

In answering the question "Why did the population in country II drop sharply while during the same time period the populations of countries I, III, and IV increased?" Hexter demonstrates the covering law model as follows:

Boundary conditions. At time t_0 , II was a land (a) densely populated, (b) almost wholly agrarian, (c) with an extremely primitive transportation network. (d) The population subsisted on a diet almost entirely composed of a carbohydrate present in plant x, which was raised locally. (e) Other native agricultural products were locally consumed in such limited quantity that (f) means were lacking for the necessary processing of the most important ones. (g) Plant x is susceptible to a disease y which (1) suddenly, wholly, and without warning destroys the edible nutritive portion very shortly before it is ready for harvesting, (2) spreads very rapidly, and (3) lingers in the soil and infects plant x in successive years. Finally (h) disease y infected plant x in land II for several successive years between t_0 and t_0 plus ten years.

Covering laws. (a) A plant disease which acts as y does destroy the crop x in an area. (b) The almost complete destruction of the sole food staple in a densely populated area with a primitive transportation network and no means for processing other agricultural products reduces the available food supply in that area to a level far below the level of subsistence for the local population. (c) When the available food supply in an area is far below the minimum required by the population for subsistence, that population will decline through emigration and/or increased susceptibility to disease consequent to malnutrition, and/or starvation.⁵⁸

The statement of the boundary conditions and the covering laws make necessary the statement that the population in country II declined between t_0 and t_0 plus ten years. Therefore, an explanation of the decline in population in country II has been established. Since the boundary conditions are not present in countries I, II, and IV, no such statement necessarily follows. The countries represented in Hexter's illustration are Belgium (I), Ireland (II), England (III), and France (IV). His illustration explains one of the results of the Irish Potato Famine.

On the basis of examples such as the above and other arguments concerning the scientific character of explanations and predictions,

Hempel concludes that "Historical explanation, too, aims at showing that the event in question was not 'a matter of chance,' but was to be expected in view of certain antecedent or simultaneous conditions. The expectation referred to is not prophecy or divination, but rational scientific anticipation which rests on the assumption of general laws."⁵⁹

Hempel's reaction to Collingwood and those who hold views similar to Collingwood was so extreme that it provoked counterattacks.⁶⁰

Rational

Dray cannot accept the covering law concept of historical explanation because he thinks the theory lacks sensitivity "... to the concept of explanation historians normally employ."⁶¹ In "The Historical Explanation of Actions Reconsidered" Dray stated:

I want to argue that the trouble, ..., is that what historians usually mean, in offering an explanation of a human action, simply does not coincide conceptually with showing an action's performance to have been deducible from other conditions in accordance with empirical laws.⁶²

In countering the covering law concept, Dray proposes a type of explanation framework that is similar in many respects to that of Collingwood. Dray believes that the conceptual framework upon which most explanations in human history rest is a "... conceptual connection between understanding a man's action and discerning its rationale."⁶³ Briefly stated, his conceptual foundation is as follows:

The function of an explanation is to resolve puzzlement of some kind. When a historian sets out to explain a historical action, his problem is usually that he does not know what reason the agent had for doing it. To achieve understanding, what he seeks is information about what the agent believed to be the facts of his situation, including the likely results of taking various courses of action considered open to him, and what he wanted to accomplish: his purposes, goals, or motives. Understanding is achieved when the historian can see the reasonableness of a man's doing what his agent did, given the beliefs and purposes referred to; his action can then be explained as having been an "appropriate" one.⁶⁴

Dray calls this type explanation, which attempts to find a connection between the beliefs, motives and actions of an individual, rational explanation. Dray argues that explanations of this type do not require the use of universal laws. Neither do explanations of this type say that the action taken by the agent in question would always be taken by that agent when the circumstances present on this occasion reoccur. Rather, the purpose of explanations of this type is merely " ... to show that what was done was the thing to have done for the reasons given, rather than merely the thing that is done on such occasions, perhaps in accordance with certain laws (loose or otherwise)."⁶⁵ Dray provides an example of rational explanation in Laws and Explanations in History; pages 123-126.⁶⁶

Genetic

Proponents of the genetic approach to historical explanation argue that explanation does not have to take the form of providing the sufficient conditions of an event. Gallie, a proponent of the genetic approach, bases his argument upon a view expounded by Popper and others, " ... that any causal argument can be regarded as historical insofar as it is applied to some particular event; only, when that view emphasizes that, theoretically, any kind of causal argument can serve to explain

historical events"⁶⁷

Nagel states:

... genetic explanation of a particular event or state of affairs C_t occurring at time t shows C_t to be the result of a series of occurrences whose initial term t is some occurrence or state of affairs C_0 that existed before C_t . Accordingly, the explanation involves reference to a series of events $C_0, C_1, \dots, C_i, \dots, C_k, C_k^I, C_k^{II}, \dots, C_t$. Some of the events may have come into existence more or less simultaneously (these are indicated by letters with the same subscripts but different superscripts) and may have overlapping durations; but most of them have come into existence at different times. Moreover, an event is presumably included for mention in the series only if it is an indispensable condition for the occurrence of some later event in the series.⁶⁸

Both Gallie and Nagel point out that a genetic explanation contains some of the necessary conditions for the occurrence of the event rather than a full complement of sufficient conditions.⁶⁹

Historical Storytelling

Historical storytelling is Hexter's response to philosophers who try to assimilate history to science. Hexter does not believe that an attempt at assimilation is fruitful. He presents the following set of propositions about history offering an alternative to the philosophies of history generally presented.

1. Potentially history is a credible, coherent, and patterned construal of the record of the past.
2. Properly conducted historical investigation and properly constructed historical discourse usually result not in "mere opinion," but in close approximations to the truth about their objects of inquiry.
3. Sometimes the evidence available in the surviving records of the past will satisfactorily sustain two or more divergent yet credible conclusions about what went on in the past; and although ... God could eliminate all divergencies, historians are not and are unlikely to be omniscient gods, so some divergent historical conclusions will be almost equally credible.

4. The rhetoric of history frequently permits two or more divergent alternative structures of discourse, and the alternatives are sometimes irreducible in principle either (a) because they equally maximize the truth values that they achieve or (b) because each maximizes sets of incommensurate truths values that cannot be maximized simultaneously within any single structure of historical discourse.
5. Proposition 4-a should cause neither historians nor anyone else any discomfort or wonder, since the existence of several equally valid solutions to a problem is far from being unique to the rhetoric of history. It is phenomenon familiar to everyone who got as far as quadratic equations in Algebra, which have two equally correct solutions. It will also be familiar to anyone who considers the innumerable ways of bringing about chemical reactions of which water will be an end-product. In neither the algebraic nor the chemical case does the duality or multiplicity of correct solutions imply that there are no rules or that what counts as a correct solution is merely a matter of opinion. What is true of algebra and chemistry is also true of the rhetoric of history.
6. On the other hand proposition 4-b may present considerable difficulties since it may imply and be symptomatic of a fundamental difference between history and the natural sciences rooted in differences between the two aspects of reality that are their respective objects--"the past" and "nature."⁷⁰

In The History Primer, Hexter takes a unique approach to attack scientific approaches to historical explanation and also develops and illustrates historical storytelling.

Historical storytelling rests upon the seven postulates given on pages 6 and 7 of this study. The beginning point for the historical storyteller is an observation point, " ... the place where he takes his stand and from which he surveys the record of the past in order to make the indispensable decisions on a sound rhetorical strategy for his story."⁷¹ A constant awareness of the outcome of the story aids the historian as he selects and evaluates actions that had a bearing on the event that is being explained. Selection of data for their bearing on the pivotal point of the historical study involves judgment, not bias.

Major elements of a good historical story include: (1) The story is skillfully adapted to its context; (2) The rhetoric used is such that the historian creates in the minds of the readers mental images representing the meaning the historian seeks to transfer; (3) The story is concise; (4) The story is such that the reader can visualize in his mind what it was like to be each character in the particular situation described; (5) The story is processive in the senses that it, (a) is enough to proceed with, and (b) it gives an account of the relevant process of change through time that cannot be faulted; (6) The story is wholly credible in the particular context; and (7) The language used in the story is common to both the writer and the reader.⁷²

Specific Methods of Historical Analysis

Introduction

Almost any approach to writing history begins with the process of external criticism which establishes the authenticity of the documents being examined. The historian then uses internal criticism to establish the credibility of the statements contained in the documents. The credibility of statements by different individuals is a relative matter and the truthfulness of any statement carries a certain subjective probability. Through the process of corroboration the historian concludes which statements he feels are the most credible. These statements result in a set of facts which become the basis for his interpretation.

Chronological Method

This method simply presents in descriptive narrative the actions of individuals in chronological sequence. While the method has the

advantage of being relatively easy to perform, it is of questionable value in providing a meaningful explanation of the events that occurred. The major weakness is that of the post hoc, ergo propter hoc fallacy. The historian must remember the temporal sequence does not establish that a prior event caused a subsequent event. The logical, rather than temporal, relationship is the important relationship.

Documentary Method

In some cases a researcher has access to a set of newly discovered or newly published documents. He begins an examination of the documents with no problem in mind for which he seeks an explanation and no well conceived principles of selection. To see what is contained in the documents is the primary objective when the documentary method is used.

Biographical Method

In using the biographical method the historian focuses on the ideas and actions of the agents involved. The historian must be alert to the fact that there is a tendency on his part to overstress the creative influence and individual achievements of leading figures. Also, often there are differences between what a man thought and intended and what his followers, or critics, believe that he thought or intended. The historian tries to determine if such differences exist, and if so, make them known.

When examining the ideas and actions of the agents the historian must consider the social and cultural developments that may influence the agent. Are the agent's actions governed by personal motives or socially approved motives?

A biographical study of the major individuals involved in a problem may help not only in providing an explanation to the problem but may also contribute to such areas as: social psychology studies, leadership studies, interaction between an individual and groups studies, and personality studies.⁷³

Methodology Used

Introduction

As stated on page 20 of this study, "The objective of the study will determine the method used by the researcher," and it is this philosophy that determined the method used in this study. The main objective of this study is to analyze the events leading to the establishment of the CASB in such a way as to provide a credible explanation of the events that led Congress to establish the CASB. The documentary method is inappropriate since the method involves a search of documents with no objectivity in mind. The chronological method will not be used in its true form because of the possible occurrence of the post hoc, ergo propter hoc fallacy.

Methodology Used in Chapter III

As will be seen in Chapters IV, V, and VI, social forces play a significant role in the cost accounting standards legislation process. Because of this a separate chapter, Chapter III, is devoted to providing a background of the social forces that seem relevant to the study. Variations of the biographical method and the rational philosophy are used in Chapter III to give the reader an awareness of the possible intentions and motives of individuals and groups involved in the events

of interest.

Methodology Used in Chapters IV, V, and VI

Hexter's postulates form the foundation for the methodology used in Chapters IV, V, and VI. The author of this study agrees with Hexter that the subject matter of history is different from that of the natural sciences and also that " ... credibility rather than necessary and sufficient causes provides the standard of adequacy of explanation" On this basis, the Hempelian and Genetic philosophies are not considered appropriate for use in Chapters IV, V, and VI. Instead, the study utilizes the historical storytelling method and in writing the story the investigator focuses on a focal point and subfocal points in selecting and evaluating actions that had a bearing on the event that is being explained. Efforts are made to satisfy the major elements of a good historical story as listed on page 45 of this study. The reader will notice that element number four is very similar to the Collingwood philosophy, so in a sense the Collingwood philosophy is also used in Chapters IV, V, and VI.

Because of the nature of this study, external criticism is of secondary importance. Little, if any, question exists concerning the authenticity of the documents. Internal criticism is of primary concern in this study. Attempts are made to determine if each individual in the study was capable of knowing the truth or the facts of the situation of which he testified. If he was capable of knowing the truth the questions then become: Did he tell the truth? Or did he tell some of the truth? Was the testimony self-serving? In performing the process of internal criticism the author gives consideration to Shafer's checklist (see pages

28 and 29) and to the items enumerated by Gottschalk (see pages 29 and 30) with an emphasis on establishing credibility of the witnesses.

In presenting the individuals involved in the proceedings leading to the establishment of the CASB, efforts are made to identify the competing values of those involved and to determine why certain testimony was more persuasive than other testimony. (As a prelude to the analysis there is a chapter in which the backgrounds of the individuals playing critical roles in this study are developed.) Interdependencies existing between the structure of the situation and the behavior of the individual are alluded to and an effort is made to determine if such behavior is consistent with long-term tendencies. When appropriate and possible an attempt is made to examine both formal and informal processes.

The format of the study follows that of a story which provides a processive explanation of the establishment of the CASB.

Methodology Used in Chapter VII

Since Chapters III - VI provide an adequate and credible explanation of the events leading to the establishment of the CASB, the study could logically end after Chapter VI. However, the study goes two steps further and in Chapter VII sets forth a set of conclusions and some implications of this study for financial accounting. Prior to presenting the conclusions an examination using elements of negative criticism is made of some of the individuals involved in the study.

In presenting the implications for financial accounting the emphasis changes from trying to provide a credible explanation of past actions and events to trying to predict the future. With the change in

objectives comes a change in the philosophy used and in this section of the study variations of the concepts of Hempel, Gallie, and Nagel seem appropriate. The Hempelian philosophy argues that when something happens it is not the result of chance, but to be expected under the existing conditions. A variation of the genetic concept of Gallie and Nagel might say that an event will occur when some of the necessary conditions for the occurrence of the event are present. In the section relating to implications for financial accounting the study recommends certain actions based upon the occurrence of hypothesized conditions.

Summary

This chapter has presented features of various methods of historical study and analysis and has developed the methodology to be used in the remainder of this study. An awareness of some limitations of historical methods, some general features of historical methods, some ideas regarding assessments vs. conclusions, some ideas regarding history vs. natural sciences, some specific philosophies of history and of some specific methods of historical analysis should cause the uninitiated reader to better appreciate the value and complexities of this type research.

The overriding philosophy in determining the methodology for use in the remainder of this study is that the objective of the study will determine the method used by the researcher. As noted in the section entitled, "Methodology Used," when the objective of a chapter, or within a chapter, changes so does the methodology and/or basic philosophy.

FOOTNOTES

- ¹Ernest Nagel, The Structure of Science (New York, 1961), p. 577.
- ²Patrick Gardiner, The Nature of Historical Explanation (London, 1952), p. 40.
- ³Morris R. Cohen and Ernest Nagel, An Introduction to Logic and Scientific Method (New York, 1934), p. 324.
- ⁴Homer Carey Hockett, The Critical Method in Historical Research and Writing (New York, 1955), p. 49.
- ⁵J. H. Hexter, The History Primer (New York, 1971), p. 5.
- ⁶W. B. Gallie, Philosophy and the Historical Understanding, 2nd ed. (New York, 1968), p. 87.
- ⁷Committee on Historiography, The Social Sciences in Historical Study-Bulletin 64 (New York, 1954), p. 106.
- ⁸Ibid., p. 24.
- ⁹Gardiner, The Nature ..., p. 115.
- ¹⁰This problem will be discussed in the section of this study dealing with Collingwood's methodology.
- ¹¹Committee ..., p. 24.
- ¹²Ibid.
- ¹³In discussing the term "more important cause" Nagel says the term can be used in six different senses. The interested reader should consult: Ernest Nagel, The Structure of Science (New York, 1961), pp. 584-586.
- ¹⁴Nagel, pp. 571-572.
- ¹⁵Ibid., p. 572.
- ¹⁶Committee ..., p. 95.
- ¹⁷Nagel, p. 555.
- ¹⁸Robert Jones Shafer, A Guide to Historical Method (Homewood, Ill., 1969), p. 25.

- ¹⁹Ibid.
- ²⁰Gardiner, The Nature ..., p. 95.
- ²¹Hexter, p. 275.
- ²²Webster's New World Dictionary of the American Language, College ed. (New York, 1959), p. 1012.
- ²³Committee ..., p. 142.
- ²⁴Ibid.
- ²⁵Ibid., p. 144.
- ²⁶Shafer, p. 149.
- ²⁷The reader who is interested in a detailed explanation to external criticism is referred to A Guide to Historical Method by R. J. Shafer (Homewood, Illinois, 1969), pp. 99-120.
- ²⁸The term "document" is used by historians in different senses and can include any kind of source. According to Gottschalk the term includes written testimony, oral testimony, artifacts, pictorial survivals and archeological remains.
- ²⁹Hockett, p. 14.
- ³⁰The term "meaning" is used by some authors in different senses than used in this chapter. See pages 168-216 of David K. Berlo's The Process of Communication, (San Francisco, 1960).
- ³¹Hockett, p. 43.
- ³²Ch. V. Langlois and Ch. Seignobos, Introduction to the Study of History (New York, 1966), p. 157.
- ³³Shafer, pp. 137-138.
- ³⁴Ibid., p. 124.
- ³⁵Lois Gottschalk, Understanding History, 2nd ed. (New York, 1969), p. 150.
- ³⁶Ibid.
- ³⁷Ibid., pp. 161-164.
- ³⁸Murray G. Murphey, Our Knowledge of the Historical Past (New York, 1973), p. 57.
- ³⁹Langlois and Seignobos, pp. 202-203.
- ⁴⁰Gardiner, The Nature ..., p. 1.

⁴¹Ibid., pp. 1-2.

⁴²Carl G. Hempel, "The Function of General Laws in History," Theories of History, ed. Patrick Gardiner (Glencoe, Illinois, 1959), p. 345.

⁴³Murphey, p. 67.

⁴⁴Gallie, Philosophy ..., p. 16.

⁴⁵Gardiner, The Nature ..., p. 34.

⁴⁶Ibid., p. 61.

⁴⁷Ibid.

⁴⁸Ibid., p. 60.

⁴⁹Hexter, pp. 50-51.

⁵⁰R. G. Collingwood, "Human Nature and Human History," The Philosophy of History, ed. Patrick Gardiner (London, 1974), p. 11.

⁵¹R. G. Collingwood, quoted in William H. Dray, Philosophy of History (Englewood Cliffs, 1964), p. 11.

⁵²R. G. Collingwood, "Human Nature ...," pp. 24-25.

⁵³Ibid., p. 26.

⁵⁴The reader interested in pursuing Collingwood's idea, including criticisms of his idea, is referred to the following: Patrick Gardiner, The Nature of Historical Explanation (London, 1952), pp. 46-51; Patrick Gardiner, Theories of History (Glencoe, Illinois, 1959), p. 251; Patrick Gardiner, The Philosophy of History (London, 1974), pp. 14-40, 47-49; William Dray, Philosophy of History (Englewood Cliffs, 1964), pp. 12-15; W. B. Gallie, Philosophy and the Historical Understanding (New York, 1968), pp. 17-19; and Baruch A. Brody, Readings in the Philosophy of Science (Englewood Cliffs, 1970), pp. 167-179.

⁵⁵Hempel, p. 345.

⁵⁶Ibid.

⁵⁷Ibid.

⁵⁸Hexter, p. 28.

⁵⁹Hempel, pp. 348-349.

⁶⁰A more detailed explanation of Hempelian theory can be found in Patrick Gardiner, The Philosophy of History (London, 1974), pp. 90-105; Patrick Gardiner, Theories of History (Glencoe, Illinois, 1959), pp. 344-356. Arguments against the covering-law concept can be found in:

William Dray, Laws and Explanation in History (London, 1957); J. H. Hexter, The History Primer (New York, 1971); Patrick Gardiner, The Philosophy of History (London, 1974), pp. 51-65; and Patrick Gardiner, Theories of History (Glencoe, Illinois, 1959), pp. 270, 428-433.

⁶¹William Dray, "The Historical Explanation of Actions Reconsidered," The Philosophy of History, ed. Patrick Gardiner (London, 1974), p. 68.

⁶²Ibid.

⁶³Ibid., p. 69.

⁶⁴Ibid., p. 68-69.

⁶⁵William Dray, Laws and Explanations in History (London, 1957), p. 124.

⁶⁶For more information on rational explanations see: Patrick Gardiner, Theories of History (Glencoe, Illinois, 1959), pp. 66-89; William Dray, Philosophy of History (Englewood Cliffs, 1964); Patrick Gardiner, The Philosophy of History (London, 1974), pp. 66-89, 90-105.

⁶⁷W. B. Gallie, "Explanations in History and the Genetic Sciences," Theories of History, ed. Patrick Gardiner (Glencoe, Illinois, 1959), pp. 386-387.

⁶⁸Nagel, pp. 567-568.

⁶⁹A more detailed description of the genetic concept is found in Patrick Gardiner, Theories of History (Glencoe, Illinois, 1959), pp. 386-402 and Ernest Nagel, The Structure of Science (New York, 1961), pp. 567-568.

⁷⁰Hexter, pp. 169-170.

⁷¹Ibid., pp. 171-172.

⁷²Ibid, p. 289.

⁷³The Committee on Historiography presents an extended discussion of various methods in The Social Sciences in Historical Study (New York, 1954), pp. 128-156.

⁷⁴Hexter, p. 275.

CHAPTER III

SOCIAL FORCES RELATING TO THE STUDY

Introduction

Chapter II of this study presents some of the features of historical research and concludes with a brief description of the methodology used in this study. One of the key statements in Chapter II is that in determining the causes of human actions of the past the first step is not a close scrutiny of the documents but rather an informed understanding of the social forces at work. Only when the historian and his readers have an informed understanding of the social forces at work can they gain a proper understanding of the historical event. As indicated on page 21 of this study, by examining the structure of the situation and changes in the structure the investigator sees various interrelationships and gains insight into the possible underlying causes of the observed actions or events.

One of the major elements of a good historical story is that the story is such that the reader can visualize in his mind what it was like to be each character in the particular situation described. To enhance the reader's possibility of visualizing in his own mind what it was like to be each character in the particular situations described and to enhance the reader's possibility of gaining a proper understanding of the events leading to the establishment of the CASB, this chapter presents the social forces that seem relevant to this study: (1) the

military-industrial complex, (2) the background of Admiral Hyman Rickover, (3) the background of Senator William Proxmire, and (4) the mood of Congress.

Military-Industrial Complex

Introduction

To more fully appreciate the actions of many of the individuals involved in the Congressional hearings, Congressional debates, and related activities, an examination of the so-called military-industrial complex seems in order. Therefore, this section of the study examines various aspects of the military-industrial complex.

Eisenhower's Warning

On January 17, 1961, in his farewell address to the nation, President Eisenhower observed that the United States had been compelled to "create a permanent armaments industry of vast proportions" and to maintain a defense establishment employing 3.5 million persons and spending huge sums.¹ In addition he stated:

This conjunction of an immense military establishment and a large arms industry is new in American experience. The total influence--economic, political, even spiritual--is felt in every city, every state house, every office of the federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society.

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist. We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable citizenry can compel the proper meshing of the huge industrial and military

machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.²

This was Eisenhower's first public reference to a military-industrial complex and many people were surprised that he, a military man with friend in big business, uttered such a statement. However, the statement was consistent with his previous thinking.

At the height of a particularly aggravating dispute over the relative merits of Army and Air Force anti-aircraft weapons, he declared that "obviously political and financial considerations" rather than "strict military needs" were influencing the weapons debate. And on another occasion, when asked whether he would be willing to allocate more money for defense if the nation could, as his critics insisted, afford it, he replied heatedly, "I would not." Anyone "with any sense," he said, knew that if military spending were not restrained, the country would become a "garrison state."³

Everyone did not agree with Eisenhower regarding his warning against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. A former Defense Department official said he did not know what Eisenhower was talking about.⁴ The "Air Force" magazine characterized reaction to the President's statement as a "flap" and

deplored the "small wave of learned essays rehashing all of the irresponsible charges and insinuations that have been bandied around in Congressional hearings for the past few years." The great danger, it concluded, was that "an exercise of misdirected caution ... could menace national security."⁵

Eisenhower was not warning against a willful conspiracy by industrial and military leaders, but "of an almost insidious penetration of our own minds that the only thing the country is engaged in is weaponry and missiles--and I'll tell you we just can't afford that."⁶ Since unanimity of agreement concerning a military-industrial complex was apparently to some extent lacking in 1961, the question could be asked: Was there any evidence of a military-industrial complex at that time,

and for purposes of this study, later?

Definition of Military-Industrial Complex

Before looking at specific examples of evidences of a military-industrial complex, a definition of the term "military-industrial complex" seems appropriate. Senator Proxmire says that to simply label the influence a "military-industrial complex" is to limit the influence incorrectly and that the influence is,

... in fact, a coalition of the military services, the service associations, the Pentagon bureaucracy, the giant aerospace industry, trade associations and public relations firms, the employees of the weapons makers and the trade unions that organize them, a vast proportion of the scientific and engineering talent in the country, universities whose departments have become dependent on Pentagon largesse, government-sponsored and privately owned research organizations, local business and civic groups whose communities grow and prosper on Pentagon contracts, and the local, state and national politicians whose survival hinges on their active representation of these forces in their states or districts.

Jack Raymond, a former correspondent for The New York Times with extensive experience in covering defense affairs from Washington, gives a similar definition in a Harvard Business Review article.⁸

Interchange of Military and Industrial Personnel

One phase of the military-industrial complex subjected to extensive investigation is the hiring of retired armed services officers by the defense industries. In 1959, Representative F. Edward Hebert, Chairman of the House Armed Services Special Investigation Subcommittee, questioned 75 witnesses over 25 days regarding this issue. While the hearings produced no real evidence of wrongdoings the following was revealed.

More than 1,400 retired officers in the rank of major or higher--including 261 of general or flag rank--were found to be employed by the top 100 defense contractors. The company employing the largest number (187, including 27 retired generals and admirals) was General Dynamics Corp., headed by former Secretary of the Army Frank Pace, which also received the biggest defense orders of any company in 1960.

... No one, ..., took issue with the statement of Vice Adm. H. G. Rickover that the former jobs of retired officers often were filled "by people who are their dear friends, or even by people whom they have been influential in appointing, and naturally they will be listened to."⁹

Witnesses at the hearings maintained that their jobs involved technical, managerial, and representation functions but denied that they were involved in the negotiation processes involving military procurements. Also, while not taking issue with Rickover's statement, most former officers testified that they were "has-beens" and without influence over their former colleagues.

The Hebert Committee concluded there were " ... several obvious inconsistencies in testimony" and stated:

The better grade and more expensive influence is a very subtle thing when being successfully applied The "coincidence" of contracts and personal contacts with firms represented by retired officers and retired civilian officials sometimes raises serious doubts as to the complete objectivity of some of these decisions.¹⁰

A watered-down proposal by the subcommittee for a tighter law relating to dealings between the Government and retired Government employees passed in the House but failed to get out of the Senate Armed Services Committee.

Senator Paul H. Douglas (D., Illinois) was also concerned with this area of the military-industrial complex in 1959. In connection with a hearing before the Senate Finance Committee concerning the extension of the Renegotiation Act, he requested that the Pentagon supply a list of

former military officers who worked for the 100 largest military contractors. In 1969, Senator William Proxmire requested from the Secretary of Defense a list of retired military officers of the rank of Navy captain or Army, Air Force, and Marine Corps colonel and above who worked for the 100 largest military contractors. In the past the Pentagon had refused reporters, writers, and ordinary citizens access to this data. Rather than send Proxmire the names he had requested, which the Pentagon had available, the Pentagon requested that the contractors supply the names--which they did. On the basis of the data he received from the contractors and from the list obtained by Senator Douglas, Senator Proxmire assembled data which form the basis for Table I.

An examination of the table reveals that for each category presented the number of officers employed almost triples between 1959 and 1969. Proxmire argues that the " ... 2,124 high-ranking former officers employed by the 100 biggest contractors constitute a major bulwark...."¹¹ of the unwarranted influence Eisenhower warned against. Proxmire does not argue that a conspiracy exists between the military and industry but " ... that there is a continuing community of interest between the military, on the one hand, and the companies who hire ex-officers, on the other."¹² He feels this situation is dangerous and can lead to unwholesome results.

In 1966 an Executive Order was issued prohibiting a retired officer " ... from 'selling' or negotiating contracts with his former service... one industry source told CQ (Congressional Quarterly) that 'at least 90 percent of the retired officers hired for top-level positions by the defense contractors ignore that regulation.'¹³

TABLE I
 FACTS CONCERNING EMPLOYMENT OF EX-MILITARY
 PERSONNEL BY LARGE CONTRACTORS

Category	1959	1969
Number of retired colonels or Navy captains or above employed by the 100 largest contractors-- 88 contractors reporting	721	2,124
Average Per Company	8+	21+
Number of high ranking officers employed by the ten companies with the largest number of former officers on their payroll	372*	1,065*
Average Per Company	37+	106+
Forty-three companies on the list and reporting facts both years employed high-ranking officers numbering	588	1,642
Average Per Company	13+	38+

*Represents almost precisely half of the total number of officers
employed by the 88 contractors reporting.

Unlike the unsuccessful Hebert subcommittee proposal, Proxmire, on the basis of the disclosures presented above and in Table I was able to get an amendment accepted to the Military Procurement Bill of 1969 requiring " ... registration with the Secretary of Defense by persons transferring from certain positions between the Department of Defense and major defense contractors during a three-year period after the transfer."¹⁴ The roll call vote was 90-0. At the end of 1971, in accordance with requirements of Proxmire's amendment, the Secretary of Defense reported

... that an additional 993 retired or former military officers had been signed on by big Pentagon contractors. He also revealed ... that some 108 high-ranking Pentagon civilian employees had gone to work for big Pentagon contractors. Further, 232 former civilian employees or consultants to defense contractors were hired by the Pentagon at salaries of \$19,000 or more.¹⁵

Conflict-of-interest laws enacted in 1962 do prohibit a retired regular officer, at all times, from selling to the branch of the military service in which he holds a retired status. However, he may sell to other branches of the military services after a three-year waiting period. Critics of the Pentagon, such as Proxmire, " ... still charge that ex-officers can hide behind other titles and engage in indirect selling with military friends."¹⁶

Role of Congress

In addition to the interchange of military and industrial personnel, another aspect of the military-industrial complex is the role played by Congress.

Congressmen not only must be zealous in representing the interests of their districts but also must make decisions concerning how and where

vast sums of money will be spent. There are numerous examples illustrating how individual Congressmen are very much involved in the military-industrial complex issue.

In 1959, Representative Ken Hechler (D., West Virginia) told the House:

I am firmly against the kind of logrolling which would subject our defense program to narrowly sectional or selfish pulling and hauling. But I am getting pretty hot under the collar about the way my state of West Virginia is short-changed in Army, Navy, and Air Force installations I am going to stand up on my hind legs and roar until West Virginia gets the fair treatment she deserves.¹⁷

By fiscal year 1963, West Virginia's share of military contracts had grown to \$162 million from a level of \$36 million for fiscal year 1960 when Representative Hechler made his remarks. For the same time period the state's share of military contracts had risen it from 46th to 26th place in the nation.¹⁸

In 1960, Representative James L. Whitten (D., Mississippi), a member of the House Defense Appropriations Subcommittee, said that "you can look at some of our key people in key places in Congress and go see how many military establishments are in their districts."¹⁹ An example often cited to illustrate this point is the State of Georgia which at one time had both the chairman of the Senate Armed Services Committee, Senator Russell, and the chairman of the House Armed Services Committee, Representative Carl M. Vinson. Upon hearing the proposal to add a new Air Force installation in Georgia, one general is credited with saying that "one more base will sink the state."

President Johnson's remarks at the March 2, 1968, rollout ceremony for the C-5A cargo aircraft at the Lockheed aircraft plant in Marietta, Georgia, emphasizes the role Congressmen play in the military-industrial complex.

"I would have you good folks of Georgia know that there are a lot of Marietta, Georgias, scattered throughout our 50 states," the President said. " ... All of them would like to have the pride that comes from this production.... But all of them don't have the Georgia delegation." Mr. Johnson specifically cited the influence of the Armed Services Committee chairmen, Senator Russell and former Representative Vinson.²⁰

While it is difficult to see any direct correlation or draw any specific inferences between the number of key people in key places in Congress and the number of military establishments in their districts, it is curious that after Representative Vinson retired in 1965 and Senator Russell died in January, 1971, Georgia was one of only two states to show a decline in the amount of Defense Department payroll between fiscal year 1967 and fiscal year 1972. Georgia also " ... suffered a sharp decline in prime military contract awards over the same period."²¹ In addition, the Department of Defense announced on April 21, 1973, that three military establishments located in Georgia were scheduled for closing.

While Congressmen and former military officers appear to play vital roles in the military-industrial complex another aspect to consider is the part played by defense associations and lobbyists.

Role of Defense Associations and Lobbyists

Among the witnesses questioned at the 1959 Hebert hearings were representatives of six organizations whose primary function is to promote " ... the mutual interests of the armed services and their contractors in national security matters."²² The organizations represented were: the Association of the U. S. Army, the Navy League, the Air Force Association, the American Ordnance Association, the Aerospace Industries Association, and the National Security Industrial Association.

At the time of the Hebert hearing only Aerospace Industries Association was registered as a lobbyist.

In testifying before the committee, representatives of these organizations indicated that these organizations had nothing to do with procurement but rather were primarily concerned with informing and educating. In spite of the fact that the representatives of these organizations maintained that the organizations they represented were completely independent of the military services, the testimony " ... showed that, for the most part, Army, Navy, and Air Force doctrines and weapons systems received enthusiastic support in their respective publications."²³

In an article entitled, "Growing Threat of Our Military-Industrial Complex," Jack Raymond describes the organizations of the Army, Navy, and Air Force supporters, as being " ... led by men with strong emotional and careerist ties to the services and virtually financed by the defense contractors."²⁴ Raymond further states that these organizations are

... composed of active, reserve, and retired members of the Armed Forces, and of defense contractors, community leaders, and other supporters. These organizations are financed by membership fees, payments for contractors' exhibits at annual conventions They are regarded as the civilian "arm" or "spokesmen" of their respective services, and their officers maintain close contact with the active civilian and military leaders of the services.²⁵

Role of Military Services

Closely related to the defense associations and the lobbyists are the military services themselves. They actively carry out lobbying activities and public relations programs. Not only do the combined services seek larger appropriations but they are constantly in competition with each other for a share of the defense budget.

Techniques used to make Congress, industry, and the public aware of the virtues of particular military programs include guided tours of installations, television programs, and seminars. The services are particularly concerned about their relationship with Congress--especially with members of the Armed Services and Appropriations Committees.

When a senior member of the House Armed Services Committee complained of rumors that a Marine Corps installation might be removed from his district, the commandant came in person to assure him that no change would be made "so long as I am in the job."²⁶

In addition to such activities as those described above the Military Services maintain legislative liaison offices in the Capitol. Representatives of the military services inform and solicit the interest of members of Congress concerning respective military programs. In fiscal year 1967 the legislative liaison offices of the Pentagon and the three uniformed services were appropriated a total of \$3,810,458 to handle Congressional inquiries and push legislative programs. By comparison, among private groups required to report their lobby spending, the biggest spender, the United Federation of Postal Clerks, reported lobby expenses of \$277,524 for calendar year 1967.²⁷

The following gives the reader some idea of the extent of influence a lobbyist for the military can have.

A former Government official with experience in lobbying for the Pentagon's program told CQ that Pentagon lobbyists "have Congress organized like a Marine Corps landing." He said the legislative liaison personnel had the list of Members broken up alphabetically and that when their pressures effort failed or the issue was "extremely crucial," top Pentagon officials or a general or admiral moved in. Currently employed as a lobbyist for private industry, the onetime official told CQ he had "50 times the influence when I was lobbying for the Government than I have now."²⁸

Role of Defense Contractors

The final aspect of the military-industrial complex examined in this study is the role of defense contractors. In addition to employing former military personnel and maintaining memberships in defense associations, many defense contractors make other attempts to establish and maintain good personal relationships with the military establishment. The two following examples illustrate how a well cultivated working relationship between contractor and a military service branch can affect the procurement process.

Upon learning that the Navy had decided to eliminate a proposal on a new weapon system, the contractor went to the admiral in charge and persuaded him to permit all bidders additional time to submit additional data. The well-informed contractor still failed in his effort to prevent the elimination of the proposal.²⁹

Another contractor was more successful in his dealings with the Air Force. In competition between Company A and Company B the Air Force decided to award a new missile contract to Company A. This prompted Company B's president to visit the Secretary and persuade him to initiate a comprehensive review of the decision. The review resulted in the contract's going to Company B.³⁰

Conclusion

Few responsible individuals deny the existence, to some degree, of a military-industrial complex. The basis for disagreement is whether such a situation adversely affects the country.³¹ It is sometimes argued that the military-industry complex is no different from any other close relationships that exist between other industries and

related Government agencies. This statement has some relevance if one ignores the fact that defense spending accounts for about half of the federal budget. Seemingly, the military-industrial complex takes on vast proportions and it would probably be well to remember the following statement of Eisenhower:

We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable citizenry can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.³²

Background of Admiral Hyman Rickover

Introduction

Numerous articles imply that Admiral Hyman Rickover is responsible for the establishment of the CASB. Gary F. Bulmash, in his unpublished dissertation, says: "The most prominent individual standing out as a proponent of such standards (cost accounting standards) is, of course, Admiral Hyman Rickover."³³ To properly analyze the role played by Rickover in the establishment of the CASB, an understanding of his character and philosophy is helpful. This section presents necessary background data about Rickover considered essential for such an understanding.

Born in Makowa, Russian Poland in 1900, Hyman George Rickover moved with his family to New York City in 1904. A short time later the Rickovers moved to Chicago where Hyman grew up. Though a dedicated and hardworking student, his marks suffered in high school because he worked about eight hours a day as a delivery boy and later as a Western Union messenger.

Rickover attended Annapolis, not because of his interest in the Navy but because tuition was free.³⁴ At Annapolis, Rickover faced unpleasantries, obviously only the beginning of what followed throughout his life. Being Jewish no doubt contributed to his problems, but " ... Rickover's temperament also caused some of his troubles. Rebellious, secluded, intellectual, determined to make high marks, he did not fit the conformism of the Academy."³⁵ Robert Wallace says Rickover was not well liked. "He was a grind and a rebel but already so hard intellectually that he was untroubled by the stigma that attaches to such individuals. ... As might be imagined, Rickover developed no gluey sentimental Navy spirit, although he has a deep sense of obligation to the Navy for his education."³⁶ At the Navy's expense, Rickover did two years of graduate study at Columbia University earning a master's degree in electrical engineering.

Early Naval Experience

Rickover's advancement in the Navy was slow. His only seagoing command was the minesweeper Finch. Throughout his early career Rickover developed a reputation of being hardworking, sharp-tongued, and non-social. Getting things done and making many enemies seemed to go hand-in-hand with Rickover.

While on the battleship Nevada as a lieutenant j.g., he and his men installed a 500-unit battle telephone system. When on the submarine S-48, he redesigned its defective motors. He fought against waste and slipshod ways. These activities earned him commendation, but they won few friends and no preferment.³⁷

World War II

With the arrival of World War II, Rickover's reputation of being a hard worker and of being able to get things done worked in his favor. As head of the Electrical Section of the Bureau of Ships, Rickover incessantly worked preparing ships for battle. He "... spurred his men to exhaustion, ..., drove contractors into rages."³⁸ He wrestled

... like a Laocoön with the serpents of red tape. By the end of the war he had made naval electric gear far safer and more reliable and had earned a reputation as a man who could accomplish a job. But he had also earned a reputation for making enemies in large round numbers. It was the latter that weighed most heavily in peacetime, and again his future seemed dim.³⁹

Oak Ridge

In 1946 the Bureau of Ships was looking for a captain to send to Oak Ridge to study atomic energy. Rickover, of all the qualified captains, was the only one to apply for the position. It was at Oak Ridge that Rickover first envisioned a Navy powered by nuclear propulsion. He felt that a nuclear powered submarine was the logical starting place. His views were not shared with his superiors and eventually upon being recalled from Oak Ridge he was assigned so-called advisory duties and given an office in an abandoned ladies' room in the Navy Building.

Nautilus

Rickover ran into closed doors going through regular Navy channels concerning his ideas for a nuclear-powered submarine. He then tried to interest the Atomic Energy Commission (AEC), but to no avail. It was at this point, in 1947, that Rickover most vividly displayed his

philosophy and methods of getting things done. Rickover states:

A military organization is set up to do routine, not imaginative work.... If anyone comes along with a new idea, the people in the organization naturally tend to make him conform. The first thing a man has to do is make up his mind that he is going to get his head chopped off ultimately. If he has that feeling, perhaps he can accomplish something.⁴⁰

Based on this philosophy, Rickover bypassed several levels of the Naval hierarchy and went directly to a former submariner, Admiral Chester Nimitz, Chief of Naval Operations. Nimitz saw the possibilities and benefits of Rickover's proposal and initiated the paperwork that created the Navy's Nuclear Power Division in the Bureau of Ships, of which Rickover was made chief. Rickover then went to work on the AEC and in 1949 the Reactor Development Division of the AEC was created. Rickover convinced the head of the newly created Division to include therein a Naval Reactors Branch. Unsurprisingly, Rickover was named head of the Naval Reactors Branch.

These maneuverings enabled Rickover to bypass "red-tape." " ... Rickover, wearing his captain's hat, would write letters to be opened by Rickover, wearing his civilian hat. Whatever Rickover wanted, Rickover got. It was a rare example of the kind of cooperation that can be established when military and civilian branches of government have a genuine mutual interest."⁴¹ By cutting "red-tape" and by keeping constant pressure on everyone involved in development and production, the first nuclear submarine was launched in June, 1952. Rickover was awarded the Legion of Merit for what Secretary of the Navy Dan Kimball called "the most important piece of development work in the history of the Navy."⁴²

Promotion

On the very next day a Naval selection board passed over Rickover for promotion to rear admiral. This was the second time Rickover had been passed over and it was customary for such an officer to be scheduled for retirement. No matter how many enemies Rickover has made he has also made some friends and one such group consists of members of Congress. Upon hearing of the attempt of the Navy to get rid of Rickover, the Senate Armed Services Committee reacted in such a way that a special selection board was convened that promoted Rickover to rear admiral.

Snubbed

In August, 1958, at a special reception, Commander William Anderson, who was the skipper of the "Nautilus" on its subpolar voyage, received a medal at the White House. Conspicuous by his absence was Rickover. He had not been invited. Being snubbed was not an uncommon experience for Rickover but this action upset several Congressmen. In addition to demanding, and receiving, an apology for Rickover they pushed a proposal through Congress that resulted in awarding Rickover a special \$2,500 gold medal " ... in honor of his achievements in successfully directing the development and construction of the world's first nuclear-powered ships and the first large-scale nuclear-power reactor ... devoted exclusively to production of electricity."⁴³

Also, in August, 1958, it again was rumored that the Navy was going to try to ease Rickover out. Congress again applied certain pressures and in time Rickover was promoted to Vice-Admiral.

Views

Introduction

Perhaps the best way to develop a basic understanding of Rickover, in addition to the above, is to give several statements made by others concerning him.

Congressmen

Representative Holifield: " ... I have a great deal of confidence in the man who is in charge of this particular program, Admiral Hyman Rickover ... I do not believe there is a man in existence that has the composite knowledge which is embodied in Admiral Rickover"⁴⁴

Representative McCormack: " ... He (Rickover) made an outstanding witness and made a profound impression ... very dedicated man, an unusual gentleman, frank ... a rugged individualist ... a great leader ... persuasiveness ... sincerity ... dedicated mind"⁴⁵

These statements, made in 1958, are representative not only of Rickover's rapport with Congress then but also throughout his career. Proxmire, in 1970, said of Rickover: "Among the most persistent and able critics of the Pentagon is one of its own Admiral Hyman Rickover is a doer as well as a critic."⁴⁶

Contractors

Regarding the manner in which Rickover shortened the time necessary to develop and build the first nuclear submarine, an executive of one of the companies involved said: "He stuck his neck out a mile It took more ability and sheer courage than I've ever seen in 37 years in

industry or the Navy."⁴⁷ "When the Secretary of the Navy asked how so many radically new jobs had been completed in so short a time, Westinghouse executives told him, 'Rickover made us do it.'"⁴⁸

An official of a big industrial concern once said: "Now, don't misunderstand me. I don't dislike Rickover. I hate him."⁴⁹

Atomic Energy Commission

An angry AEC official said of Rickover: "He is not just an ordinary empire builder ... He's a complete autocrat."⁵⁰ Gordon Dean, when chairman of the AEC, said that Rickover's "energy, drive and technical competence" had made the "Nautilus" project possible.⁵¹

The Press

In 1954, Electrical World described Rickover as one who believed results are in direct proportion to efforts expended and one who had an insatiable need to work. "In the same way, he drives his contractors and subcontractors."⁵² Ronald Schiller, in 1953, called "'Rick' ... a battler who doesn't quit when he knows he's right."⁵³ In addition to calling Rickover an exasperating admiral, Robert Wallace says:

Rickover is just about the prickliest personality in Washington today. Like the original Davy Crockett, he is "clear meat-ax disposition all the way through." ... He is perhaps the most unpopular admiral in the Navy, and there are a number of influential civilians who do not care for him either.⁵⁴

Time, in January 1954, said:

Rickover has little tolerance for mediocrity, none for stupidity. "If a man is dumb," says a Chicago friend, "Rickover thinks he ought to be dead." Rickover did not conceal his opinions, and many of the officers he regarded as dumb had grown into admirals, cruising the Pentagon. They had not forgotten or forgiven. One of his opponents remarked ... "We thought we had him fixed, but now he's out of control."⁵⁵

Bryce Nelson describes Rickover as " ... a sharp-tongued 'maverick' who shows little hesitation (sic) about publicly discussing issues outside his field of professional competence. He undoubtedly qualifies as the most outspoken witness from the Defense Department payroll to appear before the congressional committees."⁵⁶

Witness

Rickover has been a frequent witness before Congressional committees covering a wide range of subject matter. His opinion is highly valued by many Congressmen. In the 1950's, Rickover testified before committees concerning what he considered to be deficiencies in the U. S. educational system. He has written two books concerning U. S. education--Education and Freedom and American Education, A National Failure. His testimony, speeches, and books have not endeared him to professional educators.

In the 1960's and 1970's Rickover was a frequent witness before various Congressional committees investigating policies of the Pentagon, defense spending, and nuclear submarines. Robert Wallace's description of Rickover's ability to deal with Congress is as true now as it was when he gave this description in 1958.

... Rickover is a superb politician. He has an acute understanding of the congressional mind and of the pressure upon it. He is summoned frequently to the Capitol to testify on the state of his program, on appropriations or on some other subject; and invariably he creates a favorable impression. He rarely presents the customary prepared statement. Instead he merely awaits questions and answers them with startling candor. "Haven't you prepared for this hearing?" a congressman once asked him. "Certainly," said Rickover. "I shaved and put on a clean shirt."

"You can't fool a congressman for long," Rickover says. "Sooner or later he will find out whether you're telling the truth. If you are, he'll help you. If not, you get the meat ax." Rickover has always given Congress a straight, if sometimes horrifying answer. As a result he enjoys enormous prestige in the Capitol.⁵⁷

Summary

Rickover was one of the first to give Congress the idea of uniform accounting standards. Elmer Staats credits Rickover with providing the impetus for bringing about the legislation that eventually led to the establishment of the CASB.⁵⁸

Rickover is seen as a hardworker, a person who can get things done, a person who has a tendency to make enemies, an officer who is not liked by his superiors in the Navy, an individualist, a maverick, but most importantly for this study, a person whose opinion in various areas is sought and respected by members of Congress.

Throughout his Naval career, Rickover has fought against waste and has been highly concerned with national security.

Background of Senator William Proxmire

Introduction

In addition to having an awareness of the military-industrial complex and Admiral Rickover, a knowledge of the background and philosophy of William Proxmire is helpful in gaining a proper understanding of how the CASB came into being. Proxmire played a role in the establishment of the CASB and this section of the study presents an evolutionary view of the Senator from Wisconsin that serves as a basis for putting his role in the proper perspective.

Education

William Proxmire was born the son of an M.D. in Lake Forest, Illinois, in 1915. Even though his father was a conservative Republican,

he sent him to the best eastern schools. While attending high school in Pottstown, Pennsylvania, his classmates voted him the "biggest grind," the "most energetic," and the "biggest sponger." From high school, Proxmire went to Yale where he received a B. A. degree with a major in English in 1938. Proxmire received two degrees from Harvard--a Master of Business Administration in 1940, cum laude, and a Master of Public Administration in 1949. According to Banking, "At Harvard he completed all the requirements for a Ph. D. degree excepting a dissertation."⁵⁹

Business and Military Experience

After receiving his MBA, Proxmire worked for a brief period of time as a clerk for J. P. Morgan and Co. in New York. In 1941 he enlisted in the Army as a private and was discharged as a first lieutenant in 1945. After receiving his MPA degree from Harvard and upon moving to Wisconsin, Proxmire became an investigative reporter in Madison for The Capital Times. Because of a disagreement with the editor, this job only lasted seven months. From 1953 through 1957 Proxmire was part owner and president of Artcraft Press, Waterloo, Wisconsin.

Political Career

Proxmire, The Planner

According to John Herbers, at the time a correspondent in the Washington bureau of The Times, Proxmire's move to Wisconsin was well thought out. Herbers says that after receiving the MPA degree from Harvard, Proxmire had a keen interest in entering into politics and made a diligent study to determine where it would be best for a person

with his liberal background to locate. On the basis of his study, Proxmire narrowed his choices to California, New Mexico, and Wisconsin. Wisconsin was the ultimate choice because the Democratic party, though small and ineffective in the past, was beginning to show signs of life and growth.⁶⁰

Proxmire, The State Legislator

In Uncle Sam--The Last of the Bigtime Spenders, Proxmire himself gives insight into his philosophy for getting things done.

Unlike most elected officials, I was anything but a natural people's choice. My constituents could not possibly consider me as one of them. From the beginning I was an outsider, an interloper. I carpetbagged into Wisconsin with about every political liability in the book. I had no degree from the University of Wisconsin. I had one from Yale and two from Harvard, all of which were political liabilities. My last employment had been not just on Wall Street, but with J. P. Morgan and Company. How do you like that for a "liberal Democrat!"

... So I needed some identification.

... I wanted to win election under these circumstances. I was desperate. I just had to get elected. How do I identify?

Well, there's only one thing left: go out and make friends. Here's how I did it.

I picked out the state legislature as my first goal. For six months I went personally--no friends, no relatives--to house after house in that assembly district of about ten thousand families. I talked and especially I listened. We won the election. And much more important, I learned something about what the people of eastern Dane County wanted, needed, hated and loved.⁶¹

Proxmire not only won his first attempt at an elected office in 1950 but in doing so he defeated a six-term incumbent in the Democratic primary and later defeated the Republican candidate by a 2-1 margin.

Proxmire, The Loser

Proxmire was not as successful in his attempts to gain the governorship of Wisconsin. In 1952 he was defeated by 400,000 votes by Walter Kohler, a Republican. Kohler again defeated Proxmire in 1954 by 35,000 votes. In his third attempt to become governor of Wisconsin, Proxmire lost to Vernon Thomson by 59,000 votes.

Proxmire, The Winner

In his races for governor, Proxmire was labeled as a carpetbagger and described by one newspaper as a "cold-blooded calculator who ... picked Wisconsin for his oyster and is driven by an overweening personal ambition for title and power."⁶²

After losing three consecutive races many observers felt Proxmire's political career was over. "Like Harold Stassen, he became the butt of jokes about the perennial loser."⁶³

A special election was held in 1957 to fill the Senate seat vacated as the result of the death of Senator Joseph McCarthy. In a statewide campaign against Republican Walter Kohler, Proxmire capitalized on his earlier defeats by saying:

My opponent does not know what it is to lose. I do. And I'll welcome the support of voters who do too. I'll take the losers ... I'll take the debtors ... I'll take the Milwaukee Braves...⁶⁴
The next Senator from Wisconsin should be one who knows defeat.

By getting 56.4 percent of the votes, Proxmire became the first Democratic Senator from Wisconsin in 25 years.

In an interview immediately following the special election, he was asked to describe his policies. Among other things he said:

Nevertheless, I prefer very greatly not to fit in any category, and that's been more or less my political philosophy. I've tried to be independent and make my own decisions without regard to any specific doctrine or anything of the kind, but on the basis of what I felt was in the best interest of the people of Wisconsin.⁶⁵

Although Proxmire refused to label himself in the interview in 1957 most observers viewed him at that time as being a liberal. Congressional Quarterly Weekly Report said: "Proxmire came to the Senate as an outspoken liberal"⁶⁶

Proxmire, The Spender

During his first year, Proxmire " ... almost set a record for speeches on the Senate floor (a reported 450 pages in the Congressional Record)"⁶⁷ He also developed a reputation of being a big spender. Representative John Byrnes, a Wisconsin Republican, after adding up the costs of new programs proposed by Proxmire in his first year and putting a price tag of \$23 billion on them labeled Proxmire, "Billion-Dollar Bill." Even though President Eisenhower and Vice President Nixon singled him out in 1958 campaign speeches as being a big spender, Proxmire won reelection rather handily.

Proxmire, The Battler

Early in his Senate career, Proxmire associated with other Senators who were considered to be mavericks--Wayne Morse, Paul Douglas, and Joseph Clark. After only 18 months in the Senate, on February 23, 1959, Proxmire made a speech in which he charged that Majority Leader Johnson had autocratic control of the Senate. It was said that the Senate heard two addresses that day: Washington's Farewell Address (read annually on Washington's birthday) and Proxmire's Farewell Address.

"Arthur Krock noted that for disregarding 'an ancient and fixed Senate taboo,' Proxmire was left 'along on the burning deck' by other liberals and soon 'retired with scars but none of the trophies of battle.'"⁶⁸

Although some Senators privately expressed to him their agreement with him, none did so publicly. Proxmire refused to yield to the disciplinary actions of the Senate and for " ... the next few years swung wildly at gnats and camels alike"⁶⁹

Proxmire narrowly won reelection to the Senate in 1964 and he said that an article by Pageant cost him 200,000 votes. In what was purported to be a poll of members of Congress and Capital reporters, Pageant found Proxmire to be the fourth worst Senator. Since 1964, Proxmire has been more selective in his targets for criticism.

Proxmire, The New Image

Until 1967, it was unclear whether Proxmire was a spender or an economizer. In 1967, Proxmire became chairman of the Joint Economic Committee (the chairmanship alternates each year between the Senate and the House) and he got his own subcommittee on economy in Government. Since that time, he has used the subcommittee to investigate various areas of Government spending--especially defense spending.

Proxmire, The Maverick

Since his attack on Senate Majority Leader Johnson, Proxmire has been known as a maverick. In 1970, William Connelly stated, "Certainly two presidents, John F. Kennedy and Lyndon Johnson, have called Proxmire a maverick. They found that neither friendship nor party loyalty would keep the Wisconsin senator in line."⁷⁰ Connelly also states:

If he is a maverick, he is a popular one.... His reputation as a maverick, may be overstated. The Democratic leadership; for example, is usually confident of getting Proxmire's vote on social legislation and on important party issues. "He votes on the low side for appropriations for a program," says one man, "but he always votes for the program. We consider him a liberal."⁷¹

Even though considered a liberal by many, Proxmire displays a conservative streak through amendments to reduce appropriations and to eliminate entire programs.

Proxmire, The Loner

Dun's Review, in April, 1967, described Proxmire as a loner to watch. Dun's stated that businessmen would have to reckon with an outspoken Senator who was unafraid to slash spending on "sacred cows"--cuts that other Senators refused to contemplate, much less advocate.⁷² As will be seen later in this study, Dun's prediction was correct.

As a member of the Senate, Proxmire has never been a member of the Senate "Establishment" or "Club." He is not known for making deals and promises with other Senators in exchange for votes on particular programs. Rather, Proxmire uses the power of argument and well timed press releases to accomplish his goals. Even though not a member of the "Senate Club" he has earned the respect of members of the "Club." "'He's hardworking and hard-hitting,' says Senator John Stennis (D-Mississippi), whose Armed Services Committee has had to make some unaccustomed cuts in the defense budget over the past two years in response to Proxmire's exposure of military spending habits."⁷³

Proxmire, The Watchdog

It is in the area of military spending that Proxmire has gained the reputation of being a watchdog. Through the Subcommittee on Economy in Government, Proxmire has led numerous investigations into defense spending, waste, inefficiency, and the military-industrial complex. As a result, weapons programs have been slowed down and sometimes stopped. Also, laws have been enacted concerning defense costs and the employing of former military officers by defense contractors.

Proxmire, The Persistent

In addition to being known as a maverick, loner, and watchdog over government spending, Proxmire has a reputation for being persistent. He is generally given credit for stopping Government support of the commercial SST aircraft. His battle, consisting of hearings, debates, and news releases extended over more than a ten year period.

Business Week, in May, 1970, described Proxmire as " ... Congress' most persistent investigator of military buying practices...."⁷⁴ In a letter to the editor, May 2, 1971, Betty Kaye Taylor gave the following testimony to the persistence of Proxmire:

On Jan. 11, 1967, Senator Proxmire served notice that he would remind the Senate daily of its failure to approve U.S. ratification of several U. N. human rights treaties, notably the Genocide Convention. Since making that pledge he has spoken 5,520 times. And now, after 20 years of delay, the Foreign Relations Committee voted recently to send the Genocide Treaty to the Senate for consent to ratify.

"More obdurate, more obstinate, more stubborn"--yes! And right on!⁷⁵

Another facet of his persistence is exemplified by his voting record in the Senate. "Being diligent is nothing new to Mr. Proxmire. He has not

missed a roll-call vote on the Senate floor since April, 1966. Earlier this year (1975) he became the first person in the history of the Senate to cast 4,000 straight roll-call votes."⁷⁶

Proxmire, The Informed

In recent years, Proxmire has gained the reputation of being well informed concerning matters of interest to him. In 1967, Bernard L. Boutin, then head of the Small Business Administration, said: "But no one does his homework any better than Bill Proxmire.... I consider Senator Proxmire one of the finest members of the Senate, a very hard worker, very well informed, and extremely patient in studying a problem and getting all the facts."⁷⁷ "In Washington, Proxmire seems totally programmed. No wasted motion or energy is permitted that would deflect from the Senator's duties. ...he is always prepared, and has always done his homework...."⁷⁸ In 1975, in hearings concerning a loan to New York City, one Senate observer said of Proxmire: "He was a fount of information and very very patient...."⁷⁹

Proxmire, The Author

In addition to fulfilling his Senatorial duties and jogging five to ten miles daily, Proxmire has authored several books. The two most relevant to this study are: Report From Wasteland, which deals with cost overruns and military waste, and Uncle Sam--The Last of the Bigtime Spenders, which contains a chapter on military spending.

Summary

Proxmire is seen as a critic of waste and inefficiency in Government--especially in the area of defense spending; a Senator that is persistent and hardworking; a Senator who uses well-timed press releases to accomplish his goals; a Senator that has earned the respect of the "Senate Club," although not a member; a Senator who has the ability to identify with seemingly obscure issues that later come into prominence; and, a well informed and effective legislator.

Mood of Congress in General

Introduction

Congress, in 1970, passed a law establishing the CASB. The Congressional hearings, reports, and debates that relate specifically to that law did not take place in a vacuum and an awareness of the mood of Congress toward military spending before and during the time of these proceedings is of paramount importance in arriving at a proper understanding of the actions of Congress.

This section of the study is based upon articles found primarily in Business Week, Congressional Quarterly Weekly Report, and The New York Times over the period 1964 through August, 1970. The section is basically a chronological presentation of actions of Congressmen and Congressional committees as they relate to Government defense spending and the cost of defense contracts.

Prelude

In his book, Report From Wasteland, Senator Proxmire indicates that in the past the attitude of the American public toward defense matters has been highly ambivalent. This attitude results in a national security policy that has been highly variable. After dismantling the military machine after World War II, the U. S., faced with the threat from the Soviet Union, moved rapidly to build its defenses. During this phase of rapid buildup, almost everyone, including Congress, took an uncritical view of defense spending and there was an absence of or lack of adequate controls on military spending. On several occasions, Congress gave the military services larger appropriations than they requested. It seemed that nothing was too good for the military and, in a sense, the military was given a blank check.⁸⁰

Congressional Concern

1967

As early as 1964 Proxmire offered amendments, to no avail, to delete millions of dollars from defense procurement bills. In April, 1967, in testimony before the House Armed Services Committee, Rickover criticized the Pentagon's cost policies. In this testimony, Rickover's primary concern was not excessive costs or profits but the extant cost-effectiveness policies which he believed were unrealistic.

In May, 1967, Business Week reported that a subcommittee of the House Armed Services Committee was conducting hearings to probe the practice of "buying in"--the deliberate bidding at a known loss with the expectation of recouping the loss by raising the price on subsequent

orders. The subcommittee focused its attention on an Army contract with Hughes Tool Company's Aircraft Division and Business Week stated: "... members (of the committee) have indicated their concern over the question whether loss bidding undermines fair competition."⁸¹ In July, 1967, the subcommittee, after finishing its ten-month investigation, concluded that buying-in had occurred and recommended that another production source be found. The subcommittee also charged that the original awarding of the contract was "'suspect' because of 'close personal relationship' between various Hughes and Army officials...."⁸²

Also, in July, 1967, the Joint Economic Committee released a report criticizing the procurement policies of the Defense Department. In particular, the committee criticized the Defense Department for failing to make sufficient use of competitive bidding in letting contracts. In addition, in negotiated contracts, the Defense Department was permitting itself to be overcharged by failing to get accurate cost data from contractors, as required by law.

In the latter part of 1967, the General Accounting Office (GAO) told Congress that the contracting policies in existence were ineffective in determining when violations of the truth-in-negotiating law had been violated. The GAO recommended a comparison of actual costs with estimated costs on noncompetitive, fixed-price contracts. On the basis of the GAO report, bills were introduced in both the House and the Senate which would require post-award audits on the books of companies having noncompetitive, fixed-price contracts. Though the bills were not acted upon, enough pressure was generated to cause the Pentagon to initiate the proposed change in policy.

At about the same time, Representative Pike criticized the

Pentagon's buying practices relating to small contracts. As a result of pressures created by Pike, the Pentagon revised its procurement policies relating to small contracts in an attempt to reduce overcharges.

1968

Senator Proxmire released the names of 23 defense contractors, in January, 1968, charging them with the improper use of Defense Department equipment. On the basis of a GAO investigation requested by a subcommittee of the Joint Economic Committee, Proxmire asserted that the 23 aerospace and electronic firms named were among thousands that were using Defense Department equipment for private commercial purposes without paying for its use--or at least not fully paying for its use. In addition to raising the issue of a military-industrial complex, Proxmire claimed such practices resulted in waste and inefficiency in Government.

In April, 1968, the Senate-House Economic Subcommittee pointed out a trend away from competitive bidding for defense contracts and claimed defense contractors were subsidized through the use of Government-owned equipment at low charges or no charges at all.

Karl G. Harr, president of the Aerospace Industries Association, in a statement defended contractor's use of Government-owned equipment. He said that it insures the availability of necessary production and also resulted in substantial savings to the Government through lower prices. He argued that prices were lower because producers did not need to include in their sales prices depreciation, taxes and insurance on Government equipment.⁸³

Appearing before a subcommittee of the House Committee on Appropriations, Rickover charged that the lack of uniform standards for letting contracts and the lack of uniform accounting standards were costing the Federal Government millions of dollars each year. He also raised the

issue of the military-industrial complex.⁸⁴

Representative Wright Patman said, in April, 1968, that there was "mounting evidence that defense procurement agencies are permitting defense industries to take advantage of the Federal Government."⁸⁵

According to Business Week, April 27, 1968, "an unusual wave of reaction against the magnitude of defense spending may be building in Congress."⁸⁶ Business Week pointed out that the Senate, in a rare move, overrode an action by the Senate Armed Services Committee regarding cuts in defense spending. Committee had cut 3 percent from research and development but the Senate cut an additional 3 percent from research and development and procurement not needed in Vietnam.⁸⁷

May, 1968, was an active month for critics of defense procurement policies. Senator Stennis called for an inquiry into the cost of the M-16 rifle and Senator McGovern claimed the Government was paying too much for the M-16 and thereby wasting taxpayers money. Rickover, appearing before a House Committee, testified that "the Navy was paying about \$400,000 more each year ... for work at two laboratories owned by the Atomic Energy Commission than the Atomic Energy Commission would pay for equivalent work."⁸⁸ Rickover testified he had unsuccessfully challenged the arrangement for three years. Also, in May, 1968, Senator McGovern, Senator Stennis, and Representative Ichord questioned the awarding of the M-16 rifle contracts to companies that had not given the lowest bids.

Testifying before the Senate Subcommittee on Antitrust and Monopoly, which was investigating military procurement policies in June, 1968, Murray W. Weidenbaum, an economics professor at Washington University in St. Louis told the committee "that defense contractors made higher

profits on Government contracts than companies doing similar work in private industry."⁸⁹

The issue is whether the biggest federal buyer (the Pentagon) is fostering enough competition. The Pentagon spends \$40-billion a year on procurement but awards almost half its prime contracts to only 25 companies.

The subcommittee worries about the "lock-in" effect of military buying--a company doing research and development on a major weapons system gets such a leg up that it almost automatically wins the production contract as well.⁹⁰

In June, 1968, the Congressional Quarterly Weekly Report described actions concerning the Renegotiation Board--the Government agency that serves as a watchdog against war profiteering. As early as 1966, Representative Henry B. Gonzalez made speeches in the House in favor of the Board. In 1967, the Cleveland Plain Dealer took up the fight to save the Board and expose war profiteering. Some of the most powerful business lobbies had opposed the Board and thought they had done a good enough job that the law authorizing the Board would not be extended. "As it developed, however, the lobbyists found themselves out-flanked by a surprising groundswell of counterprevailing pressures--directed mainly at key members of the Ways and Means Committee."⁹¹ The Board emerged with a three-year extension which was a new record.

In addition to campaigning strongly for the extension for the life of the Renegotiation Board, Gonzalez, in July, 1968, was trying to convince House members to establish a special committee to investigate war profiteering relating to Vietnam.

The Congressional Quarterly Weekly Report said on June 28, 1968, that: "Defense experts both in and outside the Government have (said) ... that huge cuts can be made in the defense budget while retaining or even improving the current level of the nation's defense."⁹² According

to the article, both Pentagon and industry sources indicated \$10.8 billion of "fat" could be cut out of the defense budget.

The New York Times, on July 16, 1968, reported that in testifying before a House Appropriations Subcommittee, Rickover attacked the Defense Department and industry. On September 30, 1968, U. S. News and World Report carried excerpts of Rickover's testimony before the Congressional Joint Committee on Atomic Energy in which he criticized the Pentagon for, what he considered to be, unrealistic cost-effectiveness studies.

On September 20, 1968, Congressional Quarterly Weekly Report stated that under Defense Secretary Clark's signature a 24-page rebuttal of the \$10.8 billion in "fat," reported in June, 1968, was distributed to key Congressional leaders.

The Joint Economic Subcommittee on Economy in Government, chaired by Senator Proxmire, held hearings November 11-14, 1968, on defense contractors profits and other aspects of military procurement. On November 15, 1968, the House Government Operations Subcommittee on Military Operations, on the basis of questionable contract awardings, instructed the Navy and Army to promote competitive bidding on defense contracts.

1969

In the first week of January, 1969, the Pentagon, for the first time, made public data on profits of companies that work for it. The profit figures they released indicated that profits on most negotiated contracts had not improved in the previous five years. Proxmire and other critics immediately challenged the figures.

John M. McGee, A. E. Fitzgerald, and the C-5A defense cargo plane

were very much in the news in the latter part of 1968 and in 1969. McGee, a civilian fuel inspector, received reprimands and a loss in pay because he reported lax inspection procedures by his superior. The GAO reported that the lax inspection procedures led to indeterminable losses of fuel.

Fitzgerald, deputy for management systems in the Office of the Assistant Secretary of the Air Force, told the Subcommittee on Economy in Government that Proxmire's estimate of a \$2 billion overrun on the C-5A program was about right.

Among reasons for the overruns, Fitzgerald suggested an initial underestimation of costs, "inadequate controls" over the program and "corporate strategy" by the contractor, the Lockheed Aircraft Corporation. Under this "strategy," Fitzgerald indicated, Lockheed might have deliberately set its estimate low on the first 58 aircraft with the intention of "more than" offsetting its losses by charging a higher price for⁹³ the follow-on production run of another 62 of the craft.

Shortly after Fitzgerald's testimony, the Civil Service removed his tenure as a Civil Service Employee. In hearings before the Joint Economic Subcommittee on Economy in Government in January, 1969, Proxmire made public a memorandum to the Secretary of the Air Force, from the Secretary's administrative assistant listing three ways to relieve Fitzgerald of his duties. The committee also heard from witnesses concerning the cost of the C-5A.

The Air Force, on January 16, 1969, announced that it intended to buy additional C-5A planes. Under the contract, the additional planes would be priced in such a way as to reflect the costs of the original order. Since the costs of the original order had exceeded the estimate, Proxmire branded the arrangement as " ... an invitation for the contractor to make its original estimates low and to show a substantial overrun."⁹⁴

Business Week reported February 15, 1969,: "Congressional concern is mounting over rising military costs. Debate centers on the Sentinel system, but the entire U. S. defense commitment is under scrutiny."⁹⁵ John Stennis, chairman of the Senate Armed Services Committee and labeled a key member of the defense establishment by Business Week, expressed concern over the increasing costs of nuclear submarines. Senate Majority Leader Mike Mansfield said Congress was going to "'put a microscope' on the \$81.5 billion defense budget."⁹⁶ Republican Senator Jacob Javits said there is a "real determination in Congress ... that the military budget is never again going to be treated as a sacred cow."⁹⁷

The concern of Congress was in part a concern over cost overruns and in part a reflection of concern expressed by citizen protest groups against the antiballistic missile (ABM) system.

Senator Proxmire, on March 23, 1968, released the results of a study showing that over 2,000 former high-ranking military officers were employed by the top 100 defense contractors. Proxmire expressed concern over such a situation.

Congressional Quarterly Weekly Report succinctly states the atmosphere in early 1969 surrounding military programs and policies as follows.

United States defense programs and policies in early 1969 have become the target of rare Congressional and public skepticism and hostility. Defense plans have been questioned in a flurry of Congressional investigations, criticized by individual Members of Congress, the public and the press and attacked with unusual boldness by disarmament and peace pressure groups.

The unrest has had some effect ... subjecting the military budget and programs to close inspection.⁹⁸

On April 5, 1969, Business Week editorialized about "The Pentagon's Costly Mistakes." In addition to pointing out errors in weapons

development and procurement Business Week stated:

... there is little doubt that at the root of the inability of government to check the development of many unsound weapons systems is what the late President Dwight D. Eisenhower called "the unwarranted influence, whether sought or unsought, of the military-industrial complex." In his farewell address, Eisenhower said, "We must never let the weight of this combination endanger our liberties or democratic processes."

Eight years ago, Eisenhower's warning of the dangers inherent in a "disastrous rise of power" in the military and the huge defense contractors seemed somewhat alarmist. Today the Eisenhower words have the ring of prophecy.⁹⁹

Testifying before the Subcommittee on Military Operations of the House Committee on Government Operations, Gordon Rule, a senior procurement officer for the Navy, " ... charged (on May 6, 1969) there was serious waste and inefficiency in defense spending because of a relationship between industry and military and high-ranking Defense Department officials."¹⁰⁰ The basic item of discussion at these hearings was the increasing costs of the C-5A.

Proxmire released a 31-page report in the latter part of May, 1969, which summarized the findings of the Joint Subcommittee on Government Economy. Included in the findings were: unnecessary cost overruns, hidden profits, the absence of competition, numerous change orders, and use of government-owned equipment that amounted to being subsidies to the contractors. In addition the report recommended that the GAO make a study of defense profits.

On June 3, 1969, the Joint Economic Committee's Subcommittee on Government Economy began an eight-day hearing on the defense budget. The same day the Senate Armed Services Committee began hearings on the rising costs of the C-5A.

Congressional Quarterly Weekly Report states:

Congressional concern about Defense spending took another form June 2, when an ad-hoc Committee of 45 Congressmen (9 Senators and 36 Representatives) released a 61-page report charging Congress had abrogated its responsibility for the monitoring of the military-industrial complex.¹⁰¹

The ad hoc committee recommended that Congress become a more viable force and acquire greater control over the military-industrial complex.

In addition, bills introduced in late May, 1969, by Representative

Podell, requiring the public reporting of cost overruns, and Senator McGovern and 15 other Democratic Senators, requiring a temporary tax on war-year profits, were gaining momentum in early June, 1969.¹⁰²

"Will U. S. Shrink Its Global Role?" an article appearing in the June 7, 1969, issue of Business Week contains several statements that reflect the attitude of Congress at that time.

Two titans (Armed Services Committee Chairman Rivers and Appropriations Committee Chairman Mahon) of the "defense establishment" squared off in the House of Representatives a few weeks ago and treated their colleagues to a rare sight: a public shouting match over the military budget.

... as recently as a year ago such a confrontation was unthinkable. The change reflects how Congress is reacting to the new mood of the country.

... Congress is digging into the defense budget more critically.

... Escalating costs of existing programs will be scrutinized more closely.

... Members of Congress find that being four-square for defense is no longer necessarily the "safest" position.... Taxpayers are becoming more vocal about their tax burdens....¹⁰³

On June 10, 1969, in the midst of growing concern for defense spending, the Defense Department announced that it cancelled the Air Force's \$3 billion Manned Orbiting Laboratory military space program after spending \$1.3 billion on the program. A short time earlier the Pentagon cancelled a production contract for Cheyenne helicopters.

William Beecher reported on July 1, 1969, that the President had established a panel to do a year-long review of the managing, research, buying, and decision-making of the Pentagon. He also reported:

One evidence of the shifting attitude in Congress on defense spending came in a report from Congressional sources that the Senate Armed Services Committee, long a proponent of a powerful defense establishment, had recently voted to slash \$1,050,000,000 from the Pentagon's request for research and development funds.¹⁰⁴

In addition, Business Week reported the unusual sharp division in the Senate Armed Services Committee as evidence by the narrow 10-7 vote by which the committee approved the Safeguard anti-missile program.

"Normally, the committee is a bastion of nearly unanimous support for new weapons systems."¹⁰⁵

After 29 days of debate, the Senate, on August 6, 1968, by one-vote margins supported President Nixon's highly controversial Safeguard anti-missile program. Senator Schweiker pushed through a bipartisan amendment to a \$20 billion appropriation bill calling for GAO reviews and reports to Congress on defense contracts. The amendment, which passed by a 47 to 46 vote, was one of many amendments, pending at the time, aimed at eliminating, cutting back, and restricting Defense Department spending and activities.

At a news conference on August 21, 1969, Secretary of Defense Laird announced reductions of more than \$1 billion in military spending for fiscal 1970. He indicated this was the first step in what would eventually be a \$3 billion reduction in spending.

During the first week of September, 1969, the Senate renewed its debate over the 20 billion dollar military procurement bill. Proxmire's proposal to limit production of the C-5A cargo plane was defeated 64-23. By a roll call vote of 90-0 the Senate adopted a proposal, initiated by Proxmire, requiring the registration with the Secretary of Defense of persons transferring between Government and defense contractors for the three-year period following the transfer.

The Senate passed the \$20 billion defense procurement bill on September 18, 1969, after two months of controversy and debate. The 1969 debate was the second longest debate in the Senate since 1945 and it was the longest debate on any military procurement bill. Among the many amendments attached to the bill was an authorization for a study of defense contractor profits on contracts that were awarded on a non-competitive basis. The vote on the amendment was 85-0.

The House, after only three days of sometimes bitter debate,

passed a \$21.3 billion defense procurement bill. The House not only restored some of the cuts made by the Senate but also added about \$1 billion for shipbuilding. In Senate-House conference the bill was finally compromised at \$20.7 billion and some of the Senate amendments were deleted. Two amendments that were not deleted, but changed slightly, were the ones requiring defense-industry employee reports and a contractor profits study.

On November 17 and 18, 1969, the Joint Economic Subcommittee on Economy in Government conducted hearings to investigate the dismissal of A. Ernest Fitzgerald. He claimed his dismissal resulted from previous testimony before Congress concerning C-5A cost overruns. The Air Force Secretary testified that Fitzgerald's position had been eliminated as an economy move.

Proxmire released a statement reported in The New York Times on December 1, 1969, stating that a GAO study found profits of up to 1,403 percent in a plant doing Air Force work. The average profit above cost was 245 percent. Proxmire said: "The taxpayer is being bilked in small-purchase contracts like those the GAO has investigated here to the tune of millions of dollars."¹⁰⁶

Also in the first week of December, 1969, the Defense Department, in accordance with a new quarterly reporting system required by Senator Stennis, reported nearly \$20 billion in cost overruns on 35 major defense programs. Senator Stennis said he would not condone overruns due to poor or inadequate management of fiscal control and Senator Proxmire said the figures were outdated and the overruns were perhaps as much as \$4 billion more. The Pentagon said the overruns should not be equated with waste and that they were well within the control of the

Administration and Congress.¹⁰⁷

John Finney reported on December 4, 1969, that the House Appropriations Committee cut the Pentagon budget by \$5.3 billion--the biggest reduction since the post-Korea Period. Finney stated: "At the same time, the committee, which is normally a defender of the Pentagon, was highly critical of the 'cost overruns' and 'goldplating' that it said had developed in procurement of new weapons."¹⁰⁸

The New York Times carried the following news item on December 11, 1969.

A memorandum of November 26 by David Packard, Deputy Secretary of Defense, asked senior defense officials to consider using the term "cost growth" and gave nine definitions to replace the term that has been closely associated with many embarrassments for the Defense Department in recent years.¹⁰⁹

In addition to other restrictions placed on defense spending in 1969, the House Appropriations Committee

In reporting the fiscal 1970 defense appropriations ... took another step to restrict Pentagon spending by providing that appropriations for most major procurements be available for only three fiscal years and that appropriations for research be available for a two-year period. In the past they were generally available until spent, giving the Pentagon greater flexibility and the Congress less control in spending.¹¹⁰

The Joint Economic Subcommittee on Economy in Government recommended a \$10 billion cut in defense spending on December 23, 1969, as it continued its hearings on defense contract overruns.

January, 1970, saw more trouble for the C-5A cargo plane. A cracked wing in one of the aircraft prompted immediate reaction in Congress. Senator Stennis ordered a study concerning the structural soundness of the aircraft and Representative Moorhead urged the Secretary of Defense to initiate a study to determine if more money should be devoted to the program.

On January 27, 1970, The New York Times in an editorial, "Security for Whom," called for reform in the military procurement area.

The relationship between the weapons manufacturers and the military establishment has been, as some critics have charged, an unhealthily cozy one. The military may dream up the need for a weapon and then the manufacturer tools up to supply the need--at a profit. Or the manufacturer may dream up the idea for a weapon, suggest the need to the military and then tool up to supply it--at a profit. This mutually beneficial, backscratching arrangement excludes any effective check on the arms race.¹¹¹

On March 31, 1970, the Senate Banking and Currency Subcommittee on Production and Stabilization began hearings on a bill to extend for two years the Defense Production Act. Included in the bill was an amendment to establish uniform cost accounting standards on negotiated defense contracts.

Controversy over the financial problems of Lockheed and the cost of the C-5A continued throughout the first quarter of 1970 and Congress continued to show concern over the cost overruns. In June, 1970, the Securities and Exchange Commission (SEC) became involved in the issue of cost overruns. As a result of the C-5A's \$2 billion overrun and the financial problems facing Lockheed, the commission announced " ... it will begin an inquiry into whether defense companies with escalating contract costs have been giving stockholders adequate notice of their financial difficulties."¹¹²

In June, 1970, Business Week observed a significant erosion of support for Pentagon programs within the Senate Armed Services Committee. This is evidenced by a recommended \$1.4 billion reduction in military buying plans. Business Week characterized the House Armed Services Committee as a rubber-stamp for the military but pointed out that the full Senate was able to force the full House into compromise on military spending issues.¹¹³

The Defense Production Act, with an amendment attached creating a commission to establish uniform cost accounting standards for defense and space contractors, passed the Senate by a roll call vote of 69-1 on July 9, 1970.

The Senate began debating the controversial antiballistic missile (ABM) system and military procurement policies on July 24, 1970. The debate continued until September 1, 1970, when the Senate passed a \$19.2 billion defense procurement bill. During that time (on July 31, 1970) the House by a 257-19 roll call vote passed a version of the Defense Production Act with an amendment to establish a commission to design uniform accounting guides for defense contractors. Also, on August 13, 1970, by a vote of 216-153 in the House and a voice vote by the Senate, Congress approved a conference report on the Defense Production Act bill. Included in the bill was an amendment authorizing the establishment of what is now known as the Cost Accounting Standards Board.

Summary

Prior to 1967 Congress as a whole showed little concern for defense spending. Beginning in 1967, various committees of Congress started holding hearings concerning defense spending and related matters. In 1968 and 1969 more and more Congressmen, Congressional committees, and citizen-protest groups were expressing concern over defense spending, profits of defense contractors, and related matters. Even members of the Armed Services Committees were questioning the cost overruns on defense contracts. In 1969 the Senate engaged in the longest debate on any military procurement bill. In the period from 1967 through

August, 1970, the following committees, as presented in this study, were investigating some aspect of defense spending: House Armed Services, Subcommittee of the House Armed Services, Joint Economic Committee, Senate Subcommittee on Antitrust and Monopoly, House Ways and Means, House Appropriations Subcommittee, Joint Committee on Atomic Energy, Joint Economic Subcommittee on Economy in Government, House Government Operations Subcommittee on Military Operations, Senate Armed Services, and an ad hoc committee composed of Senators and Representatives.

Congressional Quarterly Weekly Report succinctly states the mood of Congress as follows.

By the end of 1969, the mood had turned so completely against massive defense spending that the Administration and Congress were both moving to rein in military spending not only in the current year but in future years.¹¹⁴

Summary

Introduction

To correctly understand the events leading to the establishment of the CASB, an awareness of the social forces present at the time of its creation is indispensable. This chapter has presented the social forces that seem relevant to this study: (1) the military-industrial complex, (2) the background of Admiral Hyman Rickover, (3) the background of Senator William Proxmire, and (4) the mood of Congress.

Military-Industrial Complex

As described on page 58 of this study, the military-industrial complex is a coalition of numerous groups and individuals which, among other things, on occasion actively seeks to influence the outcome

of business transactions and of certain legislation that may effect members of the coalition either directly or indirectly. This chapter identifies some aspects of the coalition and the methods used by various members of the coalition to exert their influence. The aspects identified in this chapter are: (1) Interchange of Military and Industrial Personnel, (2) Role of Congress, (3) Role of Defense Associations and Lobbyists, (4) Role of Military Services, and (5) Role of Defense Contractors. An awareness of these aspects of the military-industrial complex and the methods used by various members of the coalition to exert their influence should cause the reader to be alert and enable him to identify and place in proper perspective these influences as they appear in Chapters IV, V, and VI.

Background of Admiral Hyman Rickover

In Chapters IV and VI, it will become clear that Admiral Rickover played an important role in bringing about the establishment of the CASB. To enable the reader to visualize in his mind what it was like to be Rickover and to more fully appreciate the role he played in the cost accounting standards legislation it seems appropriate to be aware of his Naval experience, his experience with industry, his philosophy, and the attitudes of others toward him.

Known in high school days as a hard worker, Rickover has done nothing since to change this aspect of his reputation. Early in his Naval career, in addition to being known as a hard worker, Rickover developed a reputation as an individual who could get things done and make many enemies at the same time. Not only did Rickover get things done but in many cases he did it in much less time than others thought possible.

On occasion Rickover has bypassed several layers of the Naval hierarchy and as a result created many enemies in the Defense Department. He has also been a persistent critic of the Pentagon. In addition to his enemies in the Pentagon, Rickover is not well liked by many contractors. Of special importance to this study is one place where he has few, if any, enemies--the U. S. Congress. This is evidenced by the pressures Congress has applied in the past to insure that Rickover remains on active duty and also by his frequent appearances before Congressional committees to testify on various subjects. As indicated on page 73 of this study and at various points throughout Chapters IV and VI, many Congressmen have a great deal of confidence in Rickover and his opinions.

Background of Senator William Proxmire

In chapters IV and VI, it will be seen that Proxmire played an active role in bringing about the establishment of the CASB. To properly understand the extent of his influence, it seems appropriate to be aware of his growth in the Senate, his philosophy, and the attitudes of others toward him.

Voted the "biggest grind" in his high school, Proxmire has become a grinding critic of waste and inefficiency in Government--especially in the area of defense spending. In 1970, Connelly said: "Proxmire has emerged in the past 2 years as an important figure in the growing public debate over national priorities. ... he has searched for waste in the federal budget and has criticized many of the choices this country has made in its public spending."¹¹⁵

He has changed from a rather indiscriminate attacker of people and

issues to a disciplined and effective legislator. Herbers said in 1971 that Proxmire " ... has shown a genius for associating himself with seemingly obscure issues which later came into prominence--the SST, burgeoning military costs and consumer protection, among others."¹¹⁶

Although an outsider, with respect to the Senate Club Proxmire has managed to win some major battles by being persistent and well informed. In addition, he has used the press to good advantage to gain the support of public opinion. In Senate debate concerning the funding of the SST, Proxmire attempted to get certain assurances before a certain vote. At one point Senator John Stennis said: "But the idea of the Senator's saying that unless we give those assurances, he will do so and so sounds to the press and to the public like duress...."¹¹⁷ Concerning the same issue, Senator Mike Mansfield said: "May I say that no one has been more determined, more obdurate, more obstinate, more stubborn than the distinguished Senator from Wisconsin."¹¹⁸

In the past, Proxmire has said that he is ambitious and would like to be President but that he does not think that he ever will be.

He once told an aide, in a rare confidence, that his ultimate ambition always had been to be a United States Senator and that this was what made him run so hard. If he is going to be a Senator, it is his nature, his need, to be the best and most influential Senator, in his own way.

Charles Ferris, the able counsel of the Senate Democratic Policy Committee, believes that Proxmire, whom he admires, is trying to fill the role performed for so long by Wayne Morse, who was defeated in 1968. Nothing could be done in the Senate, Ferris said, without the "Morse factor" being taken into account. Morse, because of his stamina, knowledge and determination, could, acting alone, block, delay, alter or enhance almost any Senate action.

Proxmire is not yet in Morse's league, but, Ferris says, he may be getting there.¹¹⁹

The Mood of Congress

If one merely reads the Congressional hearings, debates, and reports that deal directly with the cost accounting standards legislation, the prevailing mood of Congress may not be readily apparent and as a result the actions taken by Congress may seem unclear. The mood of Congress is perhaps the most important aspect of consideration surrounding the cost accounting standards legislation and a constant awareness of this mood as the story unfolds in Chapters IV, V, and VI is essential to a proper understanding of the actions of Congress.

As this Chapter has pointed out, in the period from 1967 through August, 1970, many Congressional committees were investigating various aspects of defense spending and by the end of 1969 Congress was displaying a negative and questioning attitude toward defense spending. The press was carrying many articles regarding defense spending and citizen protest groups were active. In addition the following Congressmen, as identified in this study, expressed publicly some concern regarding defense spending and related matters: Proxmire, Pike, Patman, Gonzalez, Stennis, Mansfield, Javits, Schweiker, Moorhead, and Mahon.

In 1969 the Senate engaged in the longest debate on any military procurement bill. Seemingly, beginning in 1967 and going forward in time, Congress was growing more and more concerned about defense spending and related matters and it is in this light that the cost accounting standards legislation should be viewed.

FOOTNOTES

¹"The 'Military Lobby'--Its Impact on Congress, Nation," Congressional Quarterly Weekly Report, Vol. XXII (February 7, 1964), p. 272.

²Ibid.

³Jack Raymond, "Growing Threat of Our Military-Industrial Complex," Harvard Business Review, Vol. 46, No. 3 (May-June, 1968), p. 55.

⁴"The 'Military Lobby'--Its Impact on Congress, Nation," p. 278.

⁵Ibid.

⁶Jack Raymond, p. 56.

⁷William Proxmire, Report From Wasteland (New York, 1970), p. 8.

⁸Jack Raymond, p. 56.

⁹"The 'Military Lobby'--Its Impact on Congress, Nation," p. 272.

¹⁰Ibid.

¹¹Proxmire, Report ..., p. 161.

¹²Ibid., p. 162.

¹³"Pressures From 'Military-Industrial Complex' Focus on New Secretary of Defense," Congressional Quarterly Weekly Report, Vol. XXVI, No. 21 (May 24, 1968), p. 1160.

¹⁴"Senate's 1968 Defense Debate Ranked Among Longest," Congressional Quarterly Weekly Report, Vol. XXVII, No. 39 (September 26, 1969), p. 1819.

¹⁵William Proxmire, Uncle Sam--The Last of the Bigtime Spenders (New York, 1972), p. 70.

¹⁶"The Military-Industrial Job Hoppers," Business Week, No. 2211 (January 15, 1972), p. 51.

¹⁷"Pressure From 'Military-Industrial Complex' ...," p. 1157.

¹⁸Ibid.

¹⁹Ibid., pp. 1157-1158.

²⁰Ibid., p. 1158.

²¹"The Military-Industrial Complex After Vietnam," Congressional Quarterly Weekly Report, Vol. XXXI, No. 23 (June 9, 1973), p. 1433.

²²"The 'Military Lobby'--Its Impact on Congress, Nation," p. 274.

²³Ibid.

²⁴Raymond, p. 60.

²⁵Ibid., pp. 60-61.

²⁶"The 'Military Lobby'--Its Impact on Congress, Nation," p. 277.

²⁷"Pressures from 'Military-Industrial Complex' ...," p. 1160.

²⁸Ibid.

²⁹Ibid.

³⁰Ibid.

³¹For positions on both sides of the issue, the reader is referred to: "Congressional Comments on Military and Industrial Links," Congressional Quarterly Weekly Report, Vol. XXXI, No. 23 (June 9, 1973), p. 1431; "Military-Industrial Complex," Congressional Quarterly Weekly Report, Vol. XXVI, No. 19 (May 10, 1968), p. 1063; "Why a 'Military-Industrial Complex'?--A Senator's Answer," U. S. News & World Report, Vol. LXVI, No. 17 (April 28, 1969), pp. 88-90.

³²"The 'Military Lobby'--Its Impact ...," p. 272.

³³Gary F. Bulmash, "An Inquiry Into the Background of and Circumstances Leading to the Establishment of the Cost Accounting Standards Board," (unpub. Ph.D. dissertation, University of Maryland, 1974), p. 278.

³⁴Robert Wallace, "A Deluge of Honors for an Exasperating Admiral," Life, Vol. 45, No. 10 (September 8, 1958), p. 109.

³⁵"The Man in Tempo 3," Time, Vol. LXIII, No. 2 (January 11, 1954), p. 36.

³⁶Wallace, p. 109.

³⁷"The Man in Tempo 3," p. 37.

³⁸Ibid.

³⁹Wallace, p. 109.

⁴⁰Ibid.

⁴¹Ibid., p. 110.

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- ⁴⁶Proxmire, Report From Wasteland, p. 2.
- ⁴⁷Ronald Schiller, "The Strange Case of the Man Behind the Atomic Sub," Look, Vol. XVII, No. 5 (March 10, 1953), p. 25.
- ⁴⁸Ibid., p. 24.
- ⁴⁹Wallace, p. 105.
- ⁵⁰Ibid., p. 118.
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CHAPTER IV

REVIEW OF LEGISLATIVE HEARINGS, LEGISLATIVE ACTIONS, AND LEGISLATIVE REPORTS PRIOR TO THE GAO FEASIBILITY STUDY

Introduction

Hexter states that "The exploration of truth values in historical discourse requires the examination of large historical texts and contexts and not just minute fragments wrenched out of context."¹ Chapter III, to some extent, provides a basis for the broad approach Hexter alludes to by presenting the social forces that seem relevant to this study and that also help put the cost accounting legislation into the proper context. Within the context described in Chapter III, the study now presents three chapters that review and analyze the Congressional inquiries relating to the establishment of the CASB and the feasibility study directed by the General Accounting Office (GAO). Chapter IV reviews the relevant events that preceded the GAO feasibility study, Chapter V reviews some of the salient features of the GAO feasibility study and Chapter VI reviews the cost accounting legislative activities that followed the GAO feasibility study. Figure 1 on page 113 diagrams the path of the CASB legislation.

Chapters IV, V, and VI review the events that can be identified, directly or indirectly, with the establishment of the CASB to give a credible account of what did happen. No attempt is made to identify necessary and/or sufficient causes but rather an attempt is made to

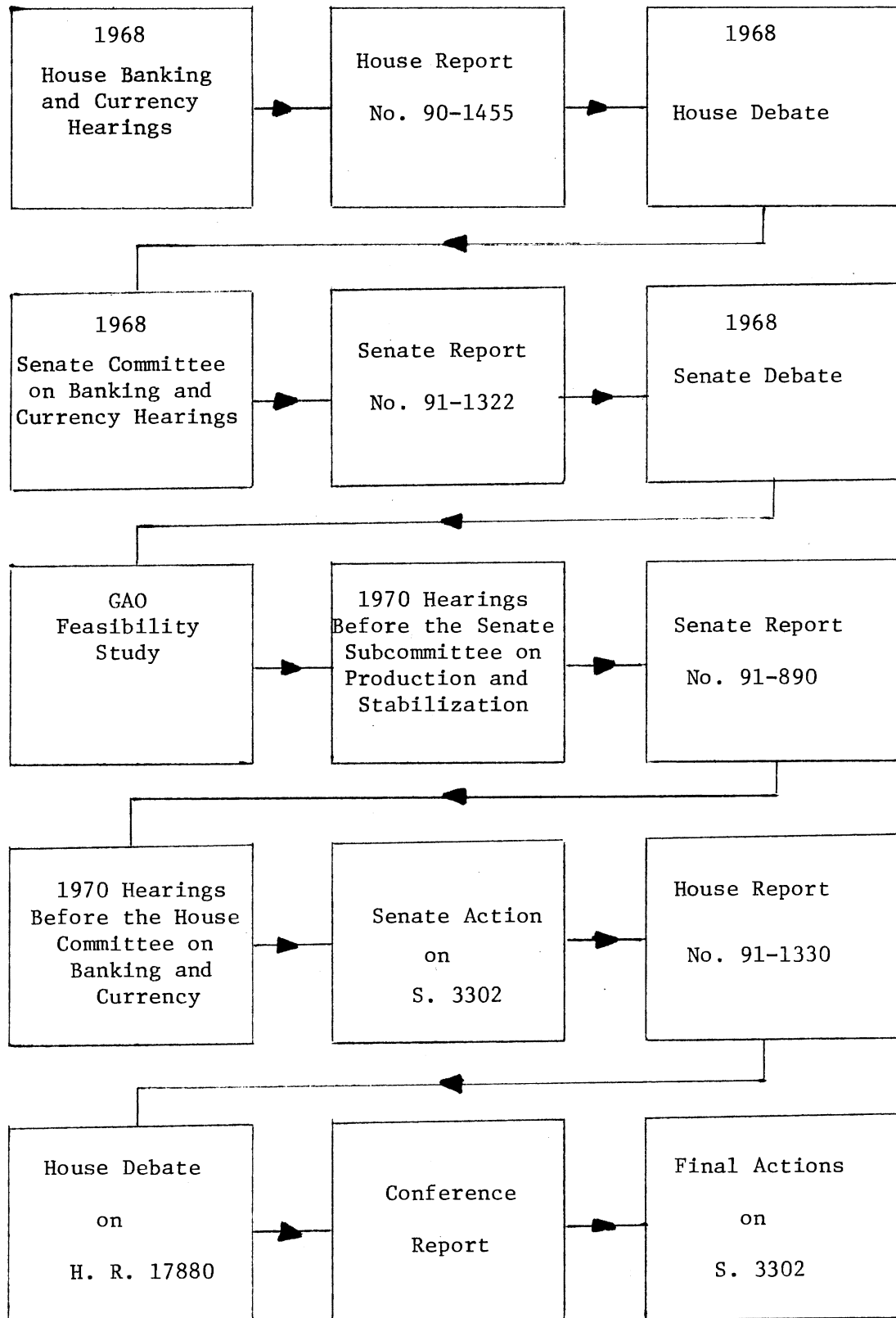


Figure 1. The Path of the CASB Legislation-- A

provide an adequate explanation of the events and circumstances leading to the establishment of the CASB.

In reading Chapters IV, V, and VI, the reader should seek answers to the following questions: (1) Was the witness qualified to testify on the subject? (2) Did the witness give reliable testimony? (3) Was the witness self-seeking? (4) Was the behavior of the witness consistent with long-term behavior? and (5) Was the testimony of the witness persuasive?

Chapter IV reviews the House hearings of 1968 as they relate to cost accounting standards legislation, the Congressional hearings of earlier years as these earlier hearings referred to in the 1968 hearings, House action on H.R. 17268, the 1968 Senate Committee on Banking and Currency Hearings, Senate Report No. 91-1322, and the Senate debate on the cost accounting standards legislation. The black-bordered area of Figure 2 on page 115 shows the parts of the CASB legislative processes covered in Chapter IV.

House Hearings of 1968 and Earlier Years

Purpose of 1968 House Committee on Banking and Currency Hearings

On Wednesday, April 10, 1968, the House Committee on Banking and Currency began a two-day hearing on H. R. 15683, a bill to renew the Defense Production Act of 1950.

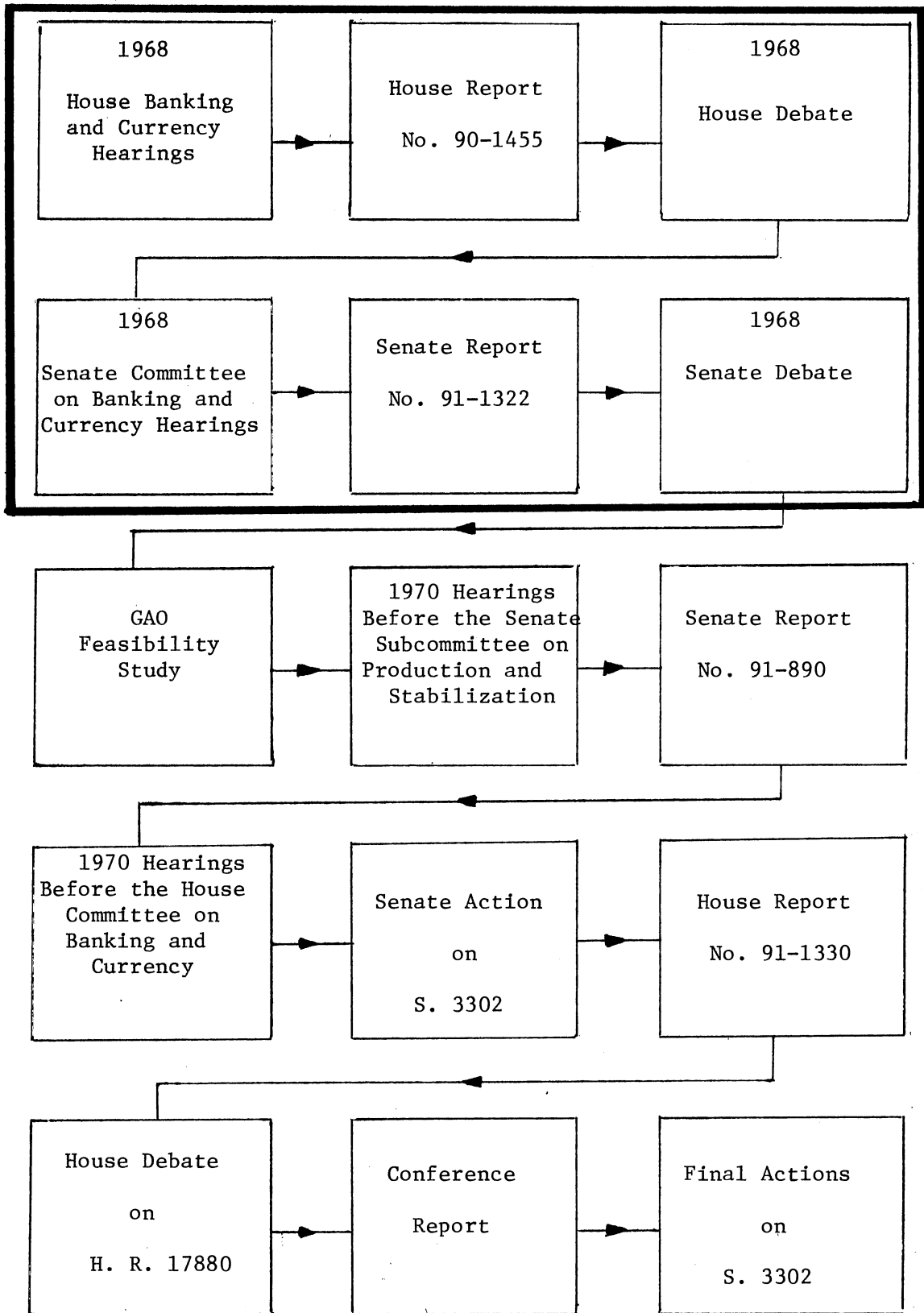


Figure 2. The Path of the CASB Legislation--B

The basic authorities found in the Defense Production Act are the establishment of a priorities and allocations program to see that essential production and related activities of vital defense materials and services are provided by industry; the operation of a program of financing; where necessary, productive capacity for producing needed defense materials and services; the carrying out of a program for stockpiling vital natural resources for use in a national emergency; and the development of an executive reserve made up of business, professional, labor, and other leaders to provide for the additional executive manpower to operate mobilization programs in an emergency.²

Since the act comes up for renewal every two years the testimony given on April 10 was considered routine because the five witnesses presented reasons for extending the Defense Production Act of 1950 for two more years.

The only witness on Thursday, April 11, 1968, was Admiral Rickover. Although a frequent witness before Armed Services Committees, Appropriation Committees, and Joint Atomic Energy Committees, this was the first time Rickover had been a witness at a House Banking and Currency Committee hearing and one might wonder why Rickover was present.

One of the basic reasons is given by Representative William A. Barrett (D., Pennsylvania). In his introduction of Rickover, Barrett makes reference to Rickover's prior testimony before the Joint Committee on Atomic Energy on March 16, 1967, when Rickover told the Joint Committee that he had initiated action under the Defense Production Act of 1950 to bring pressures upon certain companies to make needed defense equipment. Barrett said the House Committee was interested in Rickover's experiences and his opinion concerning the effectiveness of the Defense Production Act.

Barrett mentioned Rickover's prior testimony before various other Congressional committees about Government contracting procedures, increasing costs, and undue profits. Barrett said the committee was

interested in hearing Rickover's views about these matters.

Although Barrett's introduction of Rickover supposedly explains the presence of Rickover before the committee, data collected by Gary F. Bulmash in an interview with a staff member of Representative Wright Patman (D., Texas), then Chairman of the House Committee on Banking and Currency, seems to contradict the ideas in the introduction. Generally, in Congress, the chairman of a committee determines who can testify before his committee. Bulmash makes the following statement concerning Rickover's presence at the Hearings:

During discussions with Admiral Rickover prior to the testimony, Mr. Patman had been briefed about the Admiral's intended remarks concerning lack of cost accounting standards for Government contracts. Mr. Patman, an individual who is receptive to new ideas and (alleged) approaches to problems, agreed with the Admiral's assertions and, therefore, permitted his testimony.³

Testimony of Rickover at 1968 House Banking
and Currency Committee Hearings

Rickover's opening statement before the House Committee on Banking and Currency, gives a clue to his philosophy of Government contracting.

As you know, my training is in engineering. I have never raised contracting issues out of simple academic interest. I have had to get into the details of Government contracting in connection with my work, and I have run into some basic problems which I would like to discuss with you.

I have been made painfully aware of these issues in the course of my technical duties, because they affect my ability to do my job and they require that I spend far more time than I should on contractual rather than on technical matters. Technical difficulties are far overshadowed by legal and procedural blockages.

... I have spent thousands of hours attempting to protect the Government from claims by contractors and to obtain responsible performance by contractors, but I have been hampered rather than helped by Government procurement regulations.⁴

Rickover also noted that the "... Department of Defense has done little to correct the fundamental deficiencies in the contracting issues which I have raised in testimony before the Congress over the past several years."⁵

Previous Testimony Before House Appropriation

Committees

An examination of Congressional records shows that Rickover's first appearance as a witness on defense contracting was before a House Committee on Appropriations May 23, 1963. At that hearing Rickover said basic changes should be made in Government contracting to reduce Government costs. Rickover offered the following minimum controls for negotiated fixed-price contracts:

... the Government should be provided with the contractor's cost estimating data, the contractor's accounting system should be approved by the Government, and finally the contractor must divulge all profits included in his bid price.⁶

On March 6, 1964, Rickover again appeared before a House Committee on Appropriations and among other topics discussed defense contracting procedures. In addition to restating the three minimum controls cited in 1963, Rickover questioned the size of the profits on defense contracts and the lack of true competition in the area of Government contracting.

Appearing before a House Committee on Appropriations May 12, 1965, Rickover again asked for a revamping of Government contracting procedures --especially in the area of negotiated fixed-price contracts for complex defense equipment. At this hearing Rickover suggested the idea of establishing accounting standards for negotiated contract work for the Government.

What I have been trying to explain is that in negotiating, contracting, analyzing, and understanding a company's cost data is the most fundamental problem facing the Government in attempting to reduce costs

The existing Government criteria for evaluating a contractor's accounting system are quite broad and general, and as such allow considerable judgment and discretion on the part of the Government accountant who must rule on the acceptability of a contractor's accounting system. I think you will agree that the Government audit groups are understaffed and poorly equipped to cope with this complex variety of accounting systems and the highly trained and well-paid industry accounting staffs. The way for the Government to protect itself in this area is to require by law or regulation that the Government develop more specific accounting standards and require contractors to meet these standards if they do negotiated contract work for the Government.⁷(emphasis added)

When asked how much could be saved by instituting his recommendations, Rickover replied that he did not know exactly but he believed the savings would be substantial in dollars and in effort.

Rickover summarized his recommendations to the House Committee regarding negotiated contracts as follows:

I recommend that Congress require that Government procurement regulations be revised to specify minimum acceptable accounting standards for all negotiated contracts of substantial dollar value, not just cost-type contracts and incentive contracts. I also recommend that contractors have a Government-approved accounting system which will reflect actual costs for individual contracts as a prerequisite for award of any negotiated contract. Contractors should also be required to base their certified price proposals for negotiated contracts on such a Government-approved accounting system.

Further, I recommend that certified contractor cost and pricing information be obtained and utilized by the Government in the evaluation of procurements of a substantial amount which are⁸ not being awarded on a competitive, formally advertised basis.

In introducing Admiral Rickover at a House Committee on Appropriations Hearing May 11, 1966, Representative Mahon (D., Texas) said:

"We have been having our problems in the field of Government contracting. You have talked to us on previous occasions about contracting procedures. We would like to have your latest thinking on that subject."⁹ In

responding to this remark, Rickover told the committee how two Government agencies were paying different rates for the same services at the same location because of differences in the way the respective contracts were drawn up. This example served as a lead-in for Rickover's comments regarding accounting standards.

The problems I have encountered because two Government agencies do not agree on how general and administrative expenses at Government-owned contractor-operated plants should be treated, point out how much wheelspinning and extra effort the Government spends each year simply because it does not have uniform accounting standards. I consider the lack of such standards to be the most serious deficiency in Government procurement today.¹⁰ (emphasis added)

In addition, Rickover made essentially the same recommendations relating to defense contracting that he previously made in 1965 to the House Committee on Appropriations.

In his appearance before a House Appropriations Committee May 1, 1967, Rickover restated his feelings about Government procurement policies and procedures and repeated his opinion that " ... the lack of uniform standards for accounting is the most significant issue in Government contracting today."¹¹ He also observed: "The Department of Defense has done nothing to correct the fundamental contracting issues which I have raised, not only last year but for the past several years, in testimony before this committee."¹²

This brief review of Rickover's testimony before House Appropriations Committees for the period 1963-1967 indicates the continuing interest of Rickover in defense contracting and his apparent lack of success in bringing about any significant changes on accounting standards for Government contracts. These statements also imply that because of five years of concern and frequent discussions of problems about Government contracting, Rickover had become, to some degree, an

authority on Government contracting, and was so recognized by various members of Congress. It is within this setting that a closer examination of Rickover's testimony before the House Banking and Currency Committee of 1968 continues.

Continuation of Rickover's Testimony Before
the 1968 House Banking and Currency
Committee Hearings

In laying the foundation for his appeal for uniform standards of accounting, Rickover presented evidence which he argued showed that companies made higher profits on defense contracts than on commercial contracts. Following the presentation and discussion of profit figures, Rickover stated:

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 evaluations lasted nearly a year. Altogether there were seven reports containing 11 differing estimates or evaluations of the supplier's costs, in addition to the estimates made by the supplier himself.

These various reports showed estimates of the supplier's costs differing by as much as 50 percent. Thus, profit statistics are meaningless unless measured in accordance with a uniform standard. However, there are no uniform standards of accounting for costs under defense contracts. There are some criteria for cost-type contracts in the Armed Services Procurement Regulation and in the Federal Procurement Regulation. However, these regulations provide that these standards are merely a guide for negotiated fixed-price-type contracts, which constitute the major portion of the defense contracts. Even the criteria for cost-type contracts permit widely varying accounting systems and treatment of costs by contractors.

Under fixed price contracts, a contractor has virtually unlimited flexibility in deciding how he will keep his books and how he will assign costs among a number of individual contracts. Generally he is required only to maintain an accounting system conforming to the vague standard of generally accepted accounting principles for tax purposes or for reporting to stockholders. Not even the accountants agree on what constitutes generally accepted accounting procedures.¹³

Rickover followed this statement with quotes from Forbes Magazine and the Wall Street Journal criticizing the accounting profession for a lack of accounting standards. He further observed that the accounting profession, industry, and the executive branch of Government were either unwilling or unable to establish effective accounting standards and therefore the task fell upon Congress.

In response to Representative Griffin's (D., Mississippi) question about the amount of savings that would result if Congress accepted Rickover's recommendations and enacted a law requiring uniform accounting standards, Rickover said he could only guess but " ... 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...."¹⁴

The transcript of the hearings of the House Banking and Currency Committee gives no indication that Rickover was any more successful in getting this committee to accept his recommendation for uniform accounting standards than he had been in his testimony before House Appropriation Committees.

Inconsistency in Rickover's Testimonies

An apparent inconsistency in some of Rickover's testimonies is noted at this point. On March 16, 1967, in testimony before the Joint Committee on Atomic Energy, Rickover said the Navy was having trouble getting

General Electric and Westinghouse to accept orders for turbine generators. When asked why these companies refused to bid on the turbine generators, Rickover gave three reasons:

I believe the reason is that there is considerable commercial business available and they would rather do commercial work for three reasons: (1) there may be more profit in commercial work; (2) they don't have to expend much design effort for most commercial work; and (3) they are not watched as carefully in the construction of commercial work as I watch them. They want to do business with the Government on their own terms.¹⁵ (emphasis added)

In testifying before the 1968 House Banking and Currency Committee, Rickover said that

Work for the military is usually far more difficult than civilian work. Industry would much prefer to do civilian work because they do not have to expend as much design and engineering effort on commercial work. They are usually not watched as carefully in the manufacture of commercial equipment as for military equipment and may make more profit on it.¹⁶ (emphasis added)

A few minutes later in his testimony Rickover presented evidence which he argued showed that companies made higher profits on defense contracts than on commercial contracts. Among the evidence Rickover cited was the results of a study by Dr. Weidenbaum of Washington University at St. Louis. Rickover stated that Weidenbaum concluded that " ... 'the gap between Defense and non-Defense profit has indeed widened over the past decade--in favor of Defense business.'"¹⁷

If this inconsistency was observed by any of the Congressmen, it was not in the transcript of the hearing.

Testimony of Rickover at a 1968 House
Committee on Appropriations

Appearing before a House Committee on Appropriations May 1, 1968, Rickover continued his campaign against what he considered to be high

profits on defense contracts. He repeated his recommendation for the establishment of uniform accounting standards. Much of his testimony was similar to that given to the 1968 House Banking and Currency Committee and some of his testimony was similar to that given to the House Committee on Appropriations in previous years.

House Action on H. R. 17268

On May 15, 1968, Representative Patman introduced and referred to the House Committee on Banking and Currency H. R. 17268, a bill to amend the Defense Production Act of 1950. Also, Patman submitted Report No. 90-1455, which accompanied H. R. 17268, for printing and reference to the Clerk of the House of Representatives on May 23, 1968. In addition to extending the Defense Production Act of 1950 for two years, the committee version of the bill also amended the act

... by requiring the Comptroller General to develop and recommend within 1 year uniform standards of accounting for all negotiated prime contract and subcontract defense procurements in excess of \$100,000 so that production costs and profits by individual order can be determined.¹⁸

Report No. 90-1455 indicated that the testimony of Rickover before the House Banking and Currency Committee had been a factor in arriving at the amendment. The report stated:

It was brought to your committee's attention in testimony by Adm. Hyman Rickover, U. S. Navy, and through the work of other congressional committees, that serious problems in connection with military procurement under the Defense Production Act have been encountered in recent years.

... Therefore, serious doubt was cast on the effectiveness of section 707 of the Defense Production Act to accomplish the purpose for which it was enacted.

... Because of the apparent ineffectiveness of this provision, your committee felt that the General Accounting Office should be required to develop and recommend uniform accounting standards¹⁹

Also contained in Report No. 90-1455 were the additional views of Representative Henry B. Gonzalez (D., Texas) who expressed disappointment because the committee did not approve the bill as introduced, "which would have actually instituted uniform accounting standards."²⁰

The full House of Representatives considered H. R. 17268 on June 4, 1968. In introducing the bill to the House, Representative Quillen (R., Tennessee) incorrectly stated on three occasions that the bill required the Comptroller General to set up or develop " ... a system of uniform accounting procedures"²¹ (emphasis added)

In the House debate, Representative W. E. Brock (R., Tennessee) stated that the reason the committee did not pass the bill as originally introduced--that is, require the General Accounting Office (GAO) to institute uniform standards within one year--was because

We did not feel it was proper at this particular time to institute the requirements of uniform standards since they would be faced with the problem of formulating such uniform standards within a very short period of time. However, within a year the committee will hold hearings to establish such legislation as may be necessary.²²

In leading the debate against the committee version of the uniform accounting standards legislation, Representative Gubser (R., California) and Representative Mize (R., Kansas) raised the following points.

Gubser. First of all, I seriously question this is properly within the jurisdiction of the Committee on Banking and Currency. ... I believe (this) properly belongs within the jurisdiction of the Hardy subcommittee of the Committee on Armed Services.

Gubser. Second, I believe to impose uniform accounting procedures upon industry is based upon an assumption that all defense contractors are profiteers and crooks and guilty of gouging the Government. This just is not true.

Mize. I am fearful that if we start moving toward the establishment of uniform accounting procedures for Government contractors, or any contractor, for that matter, you are going to find that you may be increasing the cost of materials purchased by the Defense Department rather than lowering them.

... you are going to find you may be having a fewer number of manufacturers interested in even working with the Government on negotiated contracts if you insist upon uniform accounting procedures.

Gubser. Neither the Department of Defense nor the General Accounting Office has ever said a word about the inadequacy of accounting procedures.

... it is impractical to impose uniform accounting procedures because the accountants of this Nation themselves have been asked to come up with uniform accounting procedures. They, the experts, have agreed that they cannot agree.²³ (emphasis added)

Representative Gonzalez lead the debate for the committee amendment requiring the Comptroller General to develop and recommend uniform standards of accounting. Even though favoring a stronger bill, Gonzalez responded to arguments of Gubser and others with the following comment.

Obviously he [Gubser] has not read not only Admiral Rickover's testimony, but the testimony of the Joint Economic Committee, the Subcommittees on Appropriations that cover the procurement processes, and a host of other committees that have discovered unconscionable profiteering at this time.

... There is no question that there is profiteering going on. I believe we owe it to ourselves to confront it. Since when is it a burden to develop a system of accountability that would give us an accurate figure as to profits and as to costs, so that the taxpayer can gauge whether or not he is getting service rendered, production rendered for the cost that he is paying.²⁴

After passage of the committee amendment requiring the development and recommendation of uniform standards of accounting within one year, by the GAO, Representative Gonzalez offered an amendment that would require the Comptroller General to develop uniform accounting standards and promulgate rules and regulations in the implementation thereof within one year after the passage of the act. In arguing for the

Gonzalez amendment, Representative Vanik (D., Ohio) stated:

It seems to me that it would be no great burden on our defense producers to comply with uniform methods of accounting which could be developed by the GAO in cooperation with the Bureau of the Budget. This is the only way in which the real cost of military hardware and material can be determined. Uniform accounting procedures prepared by the GAO could also be brought into conformity with the tax reporting procedures established by the Internal Revenue Service and utilized by the Renegotiation Board.²⁵ (emphasis added)

The primary argument offered against the Gonzalez amendment was presented by Representatives Brock (R., Tennessee), Cabell (D., Texas), and Gubser (R., California) in which these Congressmen stated that giving the GAO the power contained in the amendment would sidetrack the legislative process and result in an abdication of responsibility by Congress. The Gonzalez amendment failed to pass in the House. On June 6, 1968, the bill, as it passed the House, was referred to the Senate.

1968 Senate Committee on Banking and
Currency Hearings

Introduction

In an executive session of the Senate Committee on Banking and Currency on June 11, 1968, Senator Proxmire introduced an amendment to the Senate version of the bill to extend the Defense Production Act. The amendment would have required the Comptroller General to develop uniform accounting standards for certain negotiated defense contracts. Also, in those cases where the Comptroller General estimated that the potential benefits exceeded the expected costs of using such standards, he was to issue rules and regulations implementing such standards.

Thomas D. Morris, Assistant Secretary of Defense (Installations and Logistics), in a letter dated June 17, 1968, recommended that favorable consideration be withheld from these amendments until appropriate committees of Congress had investigated the impact of the amendments. Morris pointed out that the House debate of June 4, 1968, demonstrated a lack of agreement on the definition of the term "standard" and Morris stated that some Congressmen used the term to refer to a system of rules and procedures while other Congressmen used the term to refer to principles or a guide to action. (This researcher is unsure whether the Congressmen understood the terms they were using or the basic proposition they acted upon.)

Morris stated:

In our view, it would be neither feasible nor desirable to prescribe a standard accounting system for defense contractors. Accounting systems must be designed for the environment in which they operate, and they differ with the way a company is organized, with the preferences of its management, with the production processes, and with a number of other factors. Few, if any, informed persons would support the idea of having the Government prescribe a "system."

There is a need for "standards" in the sense of principles.²⁶

Morris further stated that such principles already existed in the form of Armed Services Procurement Regulations (ASPR) and that while improvement is always possible " ... no study as proposed could conceivably lead to 'standards from which an accurate showing of production, profits, and cost by individual order can be determined.'"²⁷

The Senate Committee on Banking and Currency held hearings on June 18, 1968, to discuss Proxmire's amendment and the amendment to H. R. 17268. Senator Proxmire opened the hearings by saying that his amendment was in part based on the testimony of Rickover before the House Committee in April, 1968. In his opening remarks, Proxmire

pointed out the flexibility of application of accounting systems and the difficulty the Government had in determining costs and profits.

Testimony of Representative Gubser

The first witness before the Senate Committee was Representative Charles Gubser, at that time the ranking minority member of the House Committee of Armed Services on Special Investigations.²⁸ He opposed uniform accounting procedures saying they were impractical, expensive, unnecessary, and an added harassment to business. Gubser argued that the Renegotiation Act and the Truth in Negotiations Act provided adequate protection to the Government and that the addition of uniform accounting procedures would represent an harassment which would force small and medium-sized businesses out of the military research and development field. Gubser expressed concern that this would tend to shrink "... the base of expertise which is available to the national defense."²⁹

Testimony of Frank H. Weitzel

Frank H. Weitzel, Assistant Comptroller General of the United States, and spokesman for the GAO, was the second witness before the Senate Committee. He questioned the specific meaning of the term "uniform accounting standards" and suggested the need for a proper definition in order to prevent contravention of Congressional intent.³⁰ Weitzel assumed the objective of the bill was the attainment of comparability of costs and profits of defense contractors. He pointed out that a contractor's accounting system is designed to satisfy the needs of the contractor; needs vary and therefore systems vary. Weitzel suggested that the accounting profession had unsuccessfully dealt with the

problem of attaining comparability of accounting results for many years. He also stated that the requirement of " ... a uniform accounting standard"³¹ might be burdensome to manufacturers doing a small amount of defense contract work and these manufacturers might elect to cease their government operations.

Weitzel indicated that the GAO thought the study " ... should not be made solely by the Comptroller General ... but by a group more representative of all engaged in Federal procurement."³² In addition, Weitzel recommended a study period of eighteen months rather than one year.

While agreeing that there were probably benefits and advantages that could be obtained if uniform accounting standards were adopted, Weitzel questioned whether the advantages would outweigh the disadvantages. Senator Proxmire reminded Weitzel that the Proxmire amendment would require that the potential benefits of uniform accounting standards outweigh the expected costs, otherwise the standard would not be implemented. Weitzel further stated:

I would like to say that while you and we disagree as to some of the details, we certainly are in agreement with you as to your objective which we recognize and respect. We feel, though, that because of the long history of study of this problem by the accounting profession itself, the recent revision of the armed services procurement regulation cost principles, which was an effort to achieve attainable consistency in cost reimbursement contracts, and to provide guidelines for negotiating fixed-price contracts, and that the study made in 1965 came up with the finding that diversity is the rule, we are somewhat doubtful that further costly study and effort would be worth the results that could be achieved.³³ (emphasis added)

Testimony of Leonard Savoie

Leonard Savoie, the third committee witness, then executive vice president of the American Institute of Certified Public Accountants

(AICPA) stated that the AICPA opposed the section of the bill calling for uniform accounting standards.³⁴ Like Weitzel, Savoie indicated that the term "uniform accounting standards" is without definition and also stated: "... I do not know what it means."³⁵ Savoie inferred that the term could refer to a uniform accounting system and presented the following arguments against the imposition of uniform accounting standards.

One of the primary arguments in support of the uniform accounting standards given in the House debate on H. R. 17268 was that they would eliminate or help to eliminate war profiteering. Savoie did not agree with this argument. Proponents argued that the use of uniform accounting standards would permit a fair determination of costs and profits. Savoie remarked that fair presentation is not dependent upon uniform systems and that conceivably a contractor might make excess profits through the use of uniform systems. Further,

Excessive profits can be prevented through competitive bidding, contract negotiations, cost estimating procedures, audits by the Defense Contract Audit Agency, and the review of their work by the General Accounting Office.³⁶

Savoie also stated that difficulties might be encountered in trying to prescribe a uniform system that would meet the needs of all companies, companies might be required to keep another set of accounting records, and some companies might discontinue government operations and thereby reduce competition in the area of defense contracting. Moreover, an effort to correct deficiencies in the Armed Services Procurement Regulations might be more productive than attempting to develop uniform accounting standards.

Savoie made the following remarks in a letter to Chairman Patman.

The American Institute of CPAs, through its Accounting Principles Board, has for several years been engaged in a major program to improve generally accepted accounting principles and bring about greater comparability of accounting practices among business corporations. The elimination of alternative accounting practices is a main goal, but there are few who believe it is either possible or desirable to obtain completely uniform accounting principles. This program has involved a major contribution of time and effort by the accounting profession and it has attracted the support and advice of responsible segments of business and government. We believe that very significant accomplishments have been made; yet more remains to be done. The development of uniform cost accounting principles is an even more difficult task--and with greater dangers of inequities--than the development of uniform principles for general accounting purposes.³⁷

Testimony of J. S. Seidman

J. S. Seidman was the one witness who gave testimony in support of uniform accounting standards.³⁸ Seidman argued that flexibility in the application of accounting principles made it difficult to compare costs and profits of two or more companies and also referred to the various cost allocation methods available to contractors. In disagreeing with previous witnesses, Seidman argued that the establishment of uniform accounting standards was possible and that the Government should take the lead in such an endeavor. Seidman recommended that the bill be changed to read "fair" instead of "accurate" production costs, the Comptroller General be given two years instead of one year to do the job, and that the development of standards be a continuing process rather than a one-shot affair.

Testimony of Howard Wright

The next witness, Howard Wright, chairman, division of accounting, University of Maryland, stated that he too did not know the meaning of the term "uniform accounting standards."³⁹ Wright, the author of

part 2, section XV, ASPR, argued that no legislation was needed in the area of uniform accounting standards and maintained that part 2, section XV, ASPR, represented "an excellent statement of cost accounting principles applicable to Government contracting."⁴⁰ and that the conceptual soundness of part 2, section XV had never been seriously questioned.

Testimony of Norman W. Holland

As spokesman for the National Society of Public Accountants, an organization representing 50,000 independent practicing public accountants, Norman W. Holland⁴¹ stated that his organization opposed the Senate amendment " ... which would have the standards put into effect as soon as they are adopted by GAO."⁴² His organization favored the House amendment because his organization thought the House amendment would provide more opportunities for input by professional accounting societies and other interested groups. Holland further stated that his organization had no particular objection to the GAO's conducting the study and referring their findings to Congress.

Testimony of Joseph G. Bacsik

Joseph G. Bacsik, vice president and controller, Ling-Temco-Vought, Inc., appeared before the committee on behalf of the Aerospace Industries Association (AIA) for which he was vice chairman, finance, of the procurement and finance committee.⁴³ Bacsik, like some previous witnesses, said that the term "uniform accounting standards" was undefined and could refer, among other things, to systems or principles. He argued that uniform accounting systems for the defense industry were highly impractical, if not impossible. He also maintained that such a system

would restrict the ability of defense contractors to manage their business effectively and efficiently, thereby making them less responsive to the needs of the military services. He also argued that such a system would increase the administrative costs of contractors and in turn result in an increase in the prices charged the Government and such a system might require defense contractors to keep another set of accounting records.

In concluding his statement, Bacsik said:

In summary, the AIA endorses the extension of the Defense Production Act. However, because of the complexity of the questions involved and the potential harmful impact on defense contracting that the establishment of "uniform accounting standards" may have, we respectfully urge that any legislation extending the act exclude such provisions. Should Congress deem it advisable to study the feasibility of uniform accounting guidelines for determining the allowability of costs incurred under negotiated Government contracts, or of a uniform accounting system, we respectfully suggest that such a study, or studies, be conducted by a Commission similar to that proposed in the pending legislation previously mentioned, or a Commission which would include members from the Government, business and professional bodies concerned with this subject.⁴⁴

Senator Proxmire responded to Bacsik's entire statement by saying:

"We certainly don't intend to impose a rigid and uniform system. We talk about standards and principles"⁴⁵ The following exchange also took place between Proxmire and Bacsik.

Senator Proxmire. Suppose you took the House bill and amended it by requiring cooperation with industry. Would that be satisfactory? With a provision that consultation be required with the defense industry?

Mr. Bacsik. It would be more in line with what we seek.⁴⁶

Testimony of George D. Butler

George Butler, president, Electra-Midland Corporation, accompanied by Joseph Chambers, vice president, Motorola Aerospace Center;

Carl Quackenbush, assistant controller, Motorola Aerospace Center; J. Russell Downey, resident partner of Peat, Marwick, Mitchell & Co., and William H. Moore, staff vice president, Electronic Industries Association represented the Electronic Industries Association (EIA) at the Senate hearings. In addition to an oral statement given by Butler, written statements were given by Quackenbush and Chambers.⁴⁷

Butler began his testimony by indicating that of the 300 member firms of EIA, the association had been unable to find a single member company which supports the proposed imposition of uniform accounting standards. (Researchers Note: Butler did not say how the determination was made. A later statement by Butler causes one to be curious about this claim. Butler said: "Even now the prospect of its [H.R. 17268] adoption has not been reported in the commercial press and is not widely understood by businessmen."⁴⁸) Butler argued that the proposed imposition of uniform accounting standards was a bad idea and unnecessary in the sense that:

... the armed services procurement regulation of the Department of Defense, the requirements of the professional accountants, and the requirements of the renegotiation board triply guarantee the validity, appropriateness, and accuracy of financial statements for defense contractors.⁴⁹

In arguing against Rickover's claim of excessive profits on defense contracts and the possible savings of billions of dollars through the imposition of uniform accounting standards, Butler presented a set of profit figures and indicated a misconception prevailed because of a failure to properly understand the purpose for which certain profit figures were developed. Butler claimed that when the figures were properly understood there were no excessive profits or increasing profits and therefore no need to legislate uniform accounting standards. In a

later exchange between Proxmire and Butler, Proxmire pointed out that the committee was now aware of four sets of profit figures, all supposedly related, and all being different. Proxmire surmised this in itself was a valid argument for needing uniform accounting standards. Butler did not agree.

Butler also stated that uniform accounting standards: would "deprive management of good accounting,"⁵⁰ drive small firms away from defense contracting, and have an adverse affect on defense programs.

Testimony of James N. Donovan

Representing the Western Electronic Manufacturers Association (WEMA), James N. Donovan requested that Congress reject the proposal calling for uniform accounting standards.⁵¹ Donovan stated that WEMA primarily was composed of small-to-medium-sized companies and there was concern among them that the requirement of uniform accounting standards might adversely affect such companies because of the supposed high cost of implementation and, it might cause them to discontinue doing business with the Government. Donovan concluded his prepared statement with these remarks:

Imposition of uniform accounting standards, we deeply believe, will do more than any other single thing to bring about the creation of a defense industry bound hand and foot to the government. It will surely narrow competition to a select few. Those companies manufacturing essentially commercial products will be eliminated as suppliers, thereby denying the government the full creativity of the nation's industrial resources. We do not wish that. We do not believe Congress wishes that. We urge you to reject the proposal.⁵²

Testimony of Ira M. Landis

Ira M. Landis, director of technical committee activities for the Financial Executives Institute (FEI), said the FEI took serious objection to the provision in the pending bills which would require the Comptroller General to develop uniform accounting standards.⁵³ Landis argued that uniform accounting standards would cause companies to either keep an additional set of books or to get out of Government contract work. He also indicated that Armed Services Procurement Regulations, the work of the Defense Contract Audit Agency, GAO audits, and activities of the accounting principles board of the American Institute of Certified Public Accountants made the establishment of uniform accounting standards unnecessary.

At one point Landis said:

We therefore believe that the promulgation of a uniform accounting system would not be in the best interests of the American free-enterprise system and is contrary to the basic philosophy that the American entrepreneur should be permitted certain freedoms bearing on the internal management of his business--especially the freedom to develop and establish the most effective management-control system for his particular type of business and in accordance with his own management philosophy, innovation, and ingenuity.

Because business conditions are so varied, and managerial judgment plays such an important role in business success, it is not reasonable to suggest that statutory rules can be constructed to anticipate all situations.⁵⁴

Testimony of Charles W. Stewart

Charles W. Stewart, representing the Machinery and Allied Products Institute, was the last witness to appear before the Senate committee, and he expressed the opinion that his organization felt the hasty adoption of uniform accounting standards would tend to approach

legislative irresponsibility.⁵⁵ Pointing out that the subject of Government contracts was being considered by 10 to 15 Congressional committees, Stewart said he did not " ... see how the Congress can act intelligently in the area."⁵⁶ (Researcher's Note: This statement tends to indicate the widespread concern about Government procurement within Congress as discussed in Chapter III of this study.) In both his oral and written testimony, Stewart presented counterarguments to the claims of Rickover and other supporters of uniform accounting standards.

Stewart also charged that statements of Rickover and Proxmire included errors in conception that created an atmosphere not conducive to an objective study. In addition, Stewart said:

But more importantly than that, in my judgment, we don't need a study for this reason: We don't need a study because there is a constant study going on in the area which is really the heart of what is addressed in these hearings; namely, cost principles, procedures, techniques, the whole basket of procurement. This is constantly going on not only within the procurement agencies but also within the General Accounting Office, whose representative you heard from this morning, in terms of whether a particular cost principle should be tightened or changed, whether there should be a new one, whether there should be more emphasis on incentive-type contracting, whether, as you have mentioned, the advertised area is being appropriately protected, and so on.⁵⁷

At least thirty-eight letters from representatives of industry, representatives of industry associations, and other interested parties were included in the appendix to the Senate hearings. Without exception, all letters expressed opposition to the imposition of uniform accounting standards. Of the eleven witnesses giving oral testimony before the committee, only one directly and specifically supported the Proxmire amendment. In verbal exchanges with Proxmire, some of the other witnesses indicated they could agree to the House version of the bill.

Senate Report No. 91-1322

On June 25, 1968, Proxmire submitted to the Senate a report on H. R. 17268 in which the Senate committee had deleted the provision authorizing the GAO to develop uniform accounting standards for certain defense contracts. In addition to the individual views of Proxmire, the report contained supplemental views of Republican Senators Bennett, Tower, Hickenlooper, Brooke, and Percy.

The Republican Senators said they felt the House amendment was " ... proposed on the basis of misinformation."⁵⁸ The Senators questioned Rickover's speculation concerning a \$2 billion savings, they stated that the profit figures that had been presented were misunderstood, they stated that there were already adequate protective devices against profiteering--profiteering which they did not think existed, and, these senators said that the studies in process made an additional study unnecessary. In their concluding remarks the Senators asserted:

... we wish to point out that we do not in any sense condone defense profiteering. If a case were made that such a problem existed, we would be the first to demand corrective action. On the basis of the facts, we are forced to conclude, however, that the present Federal regulatory and auditing machinery is sufficient to handle any problems that may exist or develop. We, therefore, are strongly opposed to any amendment requiring a study with the intent of establishing uniform accounting standards because we are convinced that such a study would be no more than a rehash of previous and presently ongoing studies, could present no new bases on which to establish standards, and that if uniform standards were set up, they would represent nothing but an harassment of business and would increase the cost of defense procurement.⁵⁹

Proxmire observed that during the Senate committee hearings many witnesses objected to his amendment that would have required the GAO to develop and implement uniform accounting standards without requiring further Congressional action. Proxmire remarked that:

Although the hearings demonstrated the complexity of the problem, it is difficult to understand why there should be serious objection to GAO merely investigating the feasibility of uniform accounting standards. Nonetheless, it was not possible to obtain agreement on the committee for even a feasibility study.⁶⁰

In concluding his statement Proxmire said:

Defense procurement now stands at \$45 billion a year. In view of the great stakes involved and the sacrifices that are being made in the war effort, it is incumbent upon those of us in Government to hold defense costs to the absolute minimum. The committee has received competent and responsible testimony that uniform accounting standards could substantially lighten the burden on the American taxpayer. Whether this is so can only be determined by a careful study. To refuse to authorize such a study is an abdication of our responsibility.⁶¹

1968 Senate Debate

H. R. 17268, as amended, was presented to the Senate for consideration on June 26, 1968. After being introduced on the Senate floor, Senator Proxmire introduced the following amendment:

The Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget, shall undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more. In carrying out such study the Comptroller General shall consult with representatives of the accounting profession and with representatives of that segment of American industry which is actively engaged in defense contracting. The results of such study shall be reported to the Committees on Banking and Currency and the Committees on Armed Services of the Senate and House of Representatives at the earliest practicable date, but in no event later than eighteen months after the date of enactment of this section.⁶²

Most of the time spent in discussing the bill was used in debating the need for such a study. Principal spokesmen against the amendment were Wallace F. Bennett (R., Utah), Charles H. Percy (R., Illinois) and Paul J. Fannin (R., Arizona).

Bennett argued that in testifying before the Senate committee the GAO indicated it was able to arrive at cost and profit figures under existing conditions despite differing accounting methods and systems.⁶³ Bennett also claimed that uniform cost accounting standards would impose an undue hardship on smaller firms and force them to keep two sets of books.

Percy indicated he was unaware of any profiteering and that competition, various existing regulations, and audits by different agencies provided sufficient control over defense contractors. In addition, he said that after checking with the GAO (on the day of this debate) it was his understanding that the GAO "did not feel that such a study is necessary."⁶⁴

Fannin stated that the

idea of preparing and implementing uniform accounting standards applicable to all defense contractors over \$100,000 seems absurd to anyone who understands the nature and purposes of accounting systems.

... To require a uniform set of accounting standards applicable to all of these situations would deprive each individual industrial manager of the flexibility necessary to utilize specific accounting systems best suited to the business he is managing.⁶⁵

Proxmire, in leading the fight for his amendment, stated:

The importance of uniform cost accounting standards lies in the fact that upwards of 85 percent of Defense procurement is negotiated procurement. Under a negotiated bid situation, the estimate of a contractor's cost plays an important role in the establishment of the price. The cost of any specific order can only be measured by the application of cost accounting principles. The essential function of cost accounting is to allocate direct and overhead costs to individual orders. Thus, the cost accounting principles followed can obviously have a large impact in determining contractor cost.⁶⁶

Proxmire was supported by Joseph S. Clark (D., Pennsylvania) and Spessard L. Holland (D., Florida). Proxmire, pointing out that

conflicting views surfaced in the Senate hearings, questioned what harm could come from such a study as he was proposing so that the facts could be determined.

In observing that the House of Representatives had included a proposal regarding uniform accounting standards in the bill passed by the House and that Rickover, "who has been right a lot more than he has been wrong," supported such a proposal, Clark thought it curious " ... to note the almost universal objection ... of our friends on the other side of the aisle to what would seem to be a rather mild suggestion"⁶⁷ Clark expressed wonder that such a survey could cause so much excitement.

Holland argued that he did not know what the outcome of such a study would be but that he thought that the GAO was better qualified to make the study than any Senate committee staff. Holland also made an observation relating to excess profits.

The fact that we have renegotiation laws and renegotiation settlements and the fact that we have to set up excess profits laws indicates that this is a subject matter in which excess profits have been made at times.⁶⁸

Proxmire's amendment passed 57-32. Of the Republicans voting on the amendment, seven voted for and twenty-nine against. Of the Democrats who voted, fifty voted for and three voted against the amendment.

The House concurred with the Senate amendments on June 27, 1968, and H. R. 17268 was signed by the Speaker of the House, the President pro tempore of the Senate, and the President of the United States on July 1, 1968.

Summary

Admiral Rickover, a frequent witness before Congressional committees, told the 1968 House Committee on Banking and Currency that he believed the Government could save \$2 billion a year if Congress would enact a law requiring uniform accounting standards. On the basis of Rickover's testimony and the work of other Congressional committees, the 1968 House Committee on Banking and Currency amended the Defense Production Act of 1950 to require the General Accounting Office to develop and recommend uniform accounting standards. The committee amendment passed the House on June 4, 1968.

Senator Proxmire, in an executive session of the Senate Committee on Banking and Currency on June 11, 1968, introduced an amendment to the Senate version of the bill to extend the Defense Production Act of 1950. The amendment would have required the Comptroller General to develop uniform accounting standards for certain negotiated defense contracts. Also, in those cases where the Comptroller General estimated that the potential benefits exceeded the expected costs of using such standards, he was to issue rules and regulations implementing such standards.

On June 18, 1968, the Senate Committee on Banking and Currency held hearings to discuss Proxmire's amendment and the amendment on H. R. 17268. Of the eleven witnesses appearing before the committee, only one gave testimony in support of uniform accounting standards legislation.

Proxmire's amendment failed to get out of committee and on June 26, 1968, he introduced an amendment requiring a feasibility study by the Comptroller General. The amendment passed the Senate by almost a two to one margin and the House concurred.

The next chapter reviews some of the important aspects of the GAO feasibility study.

FOOTNOTES

- ¹J. H. Hexter, The History Primer (New York, 1971), p. 275.
- ²U. S. Congress, House Committee on Banking and Currency, Hearings to Renew the Defense Production Act of 1950, as Amended (Washington, D.C., 1968), p. 22.
- ³Gary F. Bulmash, "An Inquiry Into the Background of and Circumstances Leading to the Establishment of the Cost Accounting Standards Board" (unpub. Ph.D. dissertation, University of Maryland, 1974.)
- ⁴U. S. Congress, House Committee on Banking and Currency, Hearings ..., pp. 61-62.
- ⁵Ibid., p. 62.
- ⁶U. S. Congress, House Subcommittee of the Committee on Appropriations, Hearings, Department of Defense Appropriations for 1964, Statement of Vice Adm. Hyman G. Rickover (Washington, D.C., 1963), p. 2.
- ⁷U. S. Congress, House Subcommittee of the Committee on Appropriations, Hearings, Department of Defense Appropriations for 1966, Testimony of Vice Adm. Hyman G. Rickover, U. S. Navy (Washington, D. C., 1965), p. 20.
- ⁸Ibid., p. 22.
- ⁹U. S. Congress, House Subcommittee of the Committee on Appropriations, Hearings, Department of Defense Appropriations for 1967, Part 6 (Washington, D. C., 1966), p. 67.
- ¹⁰Ibid., p. 167.
- ¹¹U. S. Congress, House Subcommittee of the Committee on Appropriations, Hearings, Department of Defense Appropriations for 1968, Part 6 (Washington, D. C., 1967), p. 105.
- ¹²Ibid., p. 104.
- ¹³U. S. Congress, House Committee on Banking and Currency, Hearings ..., pp. 77-78.
- ¹⁴Ibid., p. 107.
- ¹⁵U. S. Congress, Joint Committee on Atomic Energy, Hearings, Naval Nuclear Propulsion Program 1967-1968 (Washington, D.C., 1968), pp. 19-20.

¹⁶U. S. Congress, House Committee on Banking and Currency, Hearings ..., pp. 63-64.

¹⁷Ibid., p. 76.

¹⁸U. S. Congress, House of Representatives, Report to Accompany H. R. 17268, Report No. 1455 (Washington, D. C., 1968), p. 2.

¹⁹Ibid., p. 4.

²⁰Ibid., p. 7.

²¹Congressional Record--House of Representatives, Vol. 114, Part 12 (Washington, D. C., 1968), p. 15883.

²²Ibid., p. 15884.

²³Ibid., p. 15885.

²⁴Ibid., p. 15886.

²⁵Ibid., p. 15890.

²⁶U. S. Congress, Senate Committee on Banking and Currency, Hearings Amendments to the Defense Production Act of 1950, and for Other Purposes (Washington, D. C., 1968), p. 4.

²⁷Ibid.

²⁸Ibid., pp. 54-59.

²⁹Ibid., p. 55.

³⁰Ibid., pp. 60-69.

³¹Ibid., p. 61.

³²Ibid., p. 62.

³³Ibid., p. 65.

³⁴Ibid., pp. 69-75.

³⁵Ibid., p. 70.

³⁶Ibid.

³⁷Ibid., pp. 176-177.

³⁸Ibid., pp. 75-82.

³⁹Ibid., pp. 82-88.

- ⁴⁰ Ibid., p. 83.
- ⁴¹ Ibid., pp. 92-95.
- ⁴² Ibid., p. 93.
- ⁴³ Ibid., pp. 95-100.
- ⁴⁴ Ibid., p. 97.
- ⁴⁵ Ibid.
- ⁴⁶ Ibid., p. 99.
- ⁴⁷ Ibid., pp. 100-114.
- ⁴⁸ Ibid., p. 104.
- ⁴⁹ Ibid., p. 101.
- ⁵⁰ Ibid., p. 103.
- ⁵¹ Ibid., pp. 114-120.
- ⁵² Ibid., p. 120.
- ⁵³ Ibid., pp. 121-124.
- ⁵⁴ Ibid., p. 121.
- ⁵⁵ Ibid., pp. 124-139.
- ⁵⁶ Ibid., p. 124.
- ⁵⁷ Ibid., p. 129.
- ⁵⁸ U. S. Congress-Senate, Report of the Committee on Banking and Currency to Accompany H. R. 17268 Together With Supplemental and Individual Views, Report No. 1322 (Washington, D. C., 1968), p. 26.
- ⁵⁹ Ibid., p. 30.
- ⁶⁰ Ibid., p. 31.
- ⁶¹ Ibid., p. 33.
- ⁶² Congressional Record-Senate, Vol. 114, Part 14 (Washington, D.C., 1968), p. 18848.
- ⁶³ Ibid., p. 18849.
- ⁶⁴ Ibid., p. 18852.

⁶⁵Ibid., p. 18851.

⁶⁶Ibid., p. 18848.

⁶⁷Ibid., p. 18851.

⁶⁸Ibid., p. 18852.

CHAPTER V

GAO FEASIBILITY STUDY AND THE COMPTROLLER GENERAL'S REPORT

Introduction

Public Law 90-370 required the Comptroller General, the head of the GAO, in cooperation with the Director of the Bureau of the Budget and the Secretary of Defense, to make a study of the feasibility of applying uniform cost accounting standards to all negotiated defense prime contracts and subcontracts of \$100,000 or more. The law also required the Comptroller General to consult with representatives of industry and the accounting profession in carrying out his charge. The black-bordered area of Figure 3 on page 150 shows the point at which the feasibility study occurred in the CASB legislative process.

In conducting the feasibility study the Comptroller General requested that various studies be done and that reports be submitted to him. This chapter reviews the highlights of some of the studies that provided data for the Comptroller General's report to Congress and also presents the basic findings and conclusions of the Comptroller General's report. The seventeen reports that are reviewed are: (1) "Troublesome Areas in Applying the Cost Principles of ASPR Section XV," (2) "Review of ASBCA (Armed Services Board of Contract Appeals) and Federal Court Decisions Involving Accounting Matters," (3) "A History of Principles for Determining Cost of Performing Government Military Contracts,"

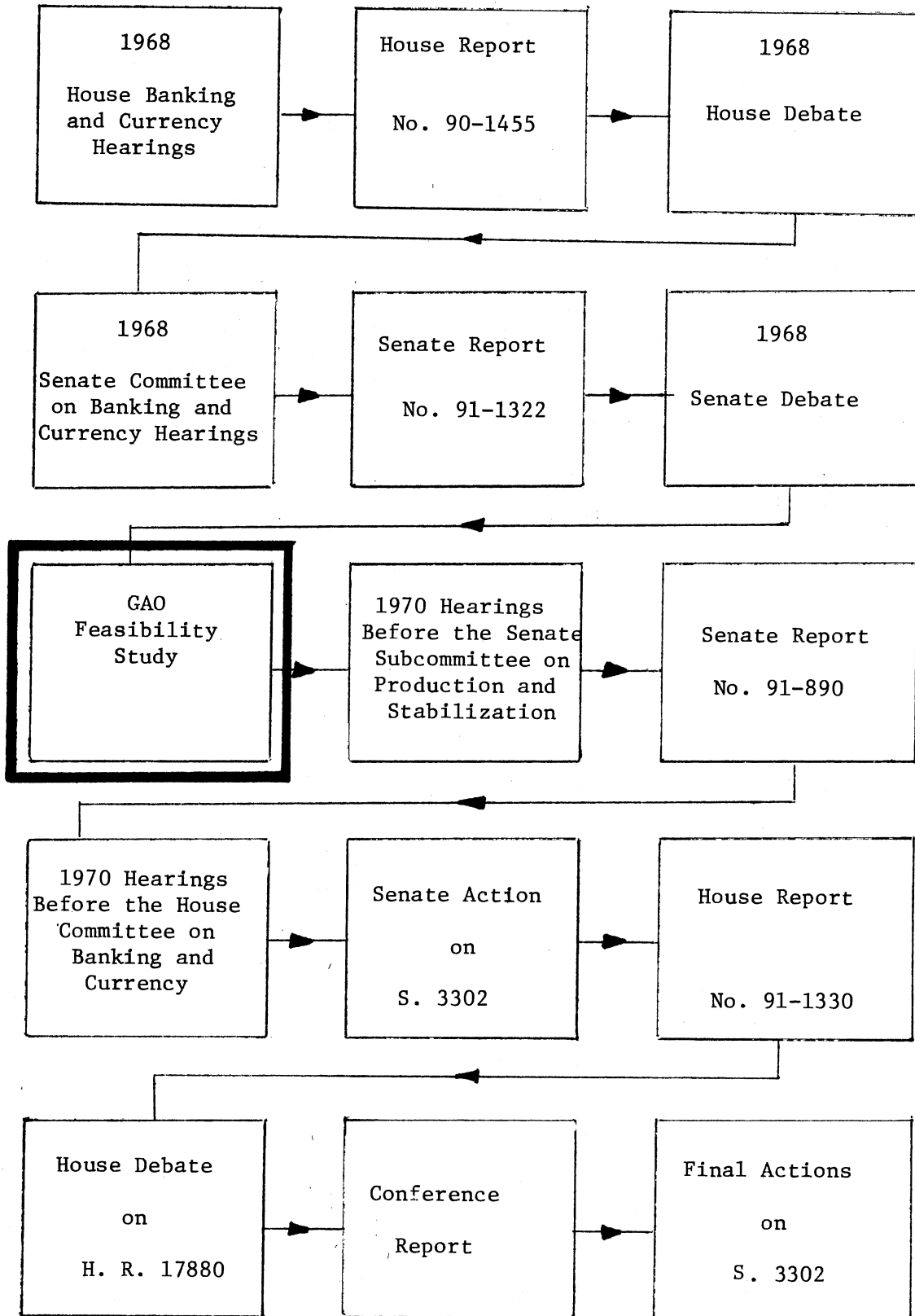


Figure 3. The Path of the CASB Legislation--C

(4) "Feasibility of Applying Uniform Cost Accounting Standards to Defense Procurements," (5) "Accounting Principles and Practices in Other Countries," (6) "Industry Views Regarding Major ASPR Revisions and Feasibility Study of UCAS," (7) "Historical Development of Accounting Principles," (8) "Historical Development of Procurement Methods," (9) "Survey of the Adequacy of Contractor's Records," (10) "Survey of Procurement Cost Principles of Selected Federal Agencies," (11) "Analysis of Cost Principles and Procedures Prescribed by the Renegotiation Board and the Armed Services Procurement Regulation," (12) "Analysis of Responses on the Suitability of Using Section XV of the Armed Services Procurement Regulation in Developing Uniform Cost-Accounting Standards," (13) "Evaluation of Responses from Government Entities to Part III of Questionnaire," (14) "Evaluation of Responses from General Accounting Office Regional Managers to Parts III and IV of Questionnaire," (15) "Examples of Contractors' Deviations from Consistent Practices or Differing Accounting Treatments as Cited in DCAA Audit Reports (Supplement)," (16) "Flexibility of Generally Accepted Accounting Principles," and (17) "An Evaluation of Auditor and Contracting Officer Responses to United States General Accounting Office Questionnaire Used in the Study of the Feasibility of Adopting Uniform Cost-Accounting Standards." The full title of each of the 17 reports, with the exceptions of numbers 13 and 17 above, also includes the following: "Report to the Comptroller General of the United States, Study of Feasibility of Adopting Uniform Cost-Accounting Standards, (Public Law 90-370)." Each report states that it is a "Report to the Comptroller General of the United States" and that it relates to the study of the feasibility of adopting uniform cost-accounting standards.

Before reviewing the 17 reports to the Comptroller General this study presents the basic definitions of three terms and then briefly describes the GAO Questionnaire. Highlights of the Comptroller General's Report to Congress follow the review of the 17 reports to the Comptroller General. Included in the highlights are the findings and conclusions of the GAO study, the major conclusions of the GAO questionnaire survey, and the conclusions of William J. Vatter's report which was a part of the GAO study.

Basic Definitions

Early in the life of the feasibility study the Comptroller General saw the need for developing some working definitions of three terms-- "cost accounting standards," "uniform," and "feasible." In an August 27, 1968, memorandum of the Office of the Special Assistant to the Comptroller General of the United States the above terms are defined as follows:

The Meaning of the Term Cost Accounting Standards. In the light of the legislative history, the term "cost accounting standards," as used in this study, will embrace cost principles, cost standards, and general rules of procedures and the criteria for their usage. "Cost principles," as the term is conceived by some, suggests self-evident truths and axioms which have a degree of universality and permanence and which underlie or are fundamental to the derivation of cost standards. "Cost standards," as the term is used by some, relates to assertions which guide or point toward accounting procedures or applicable governing rules. Cost standards are not the same as standardized or uniform cost accounting which suggests prescribed procedures from which there is limited freedom to depart. Since the legislative history suggested Section XV of ASPR as a possible satisfactory starting point and Section XV includes many general rules of procedures, the term "cost accounting standards" is considered to include all three concepts; namely, principles, standards, and general rules of procedure.

Further, "cost accounting standards" are inseparable from and impinge upon generally accepted accounting principles of which they are a part. Although there are generally accepted accounting principles which do not bear upon cost accounting principles; all cost accounting principles have their roots in generally accepted accounting principles.

The Meaning of the Term Uniform. The term "uniform" in the phrase "uniform cost accounting standards" should also be defined in terms of the legislative history. For the purpose of this study, "cost accounting standards" shall be deemed to be uniform where stated with the goal of achieving comparability and consistency of significant cost data in similar circumstances and with due regard to the attainment of reasonable fairness to all parties concerned in such circumstances.

[The Meaning of the Term Feasibility.] Feasibility will be judged in terms of the capability of the standards to provide valid cost data generally acceptable and fair to all parties in an expeditious and economical manner. Thus, to be feasible the standards must be workable not merely having a quality of being possible without any consideration of the short and long range implications, both from the viewpoint of the public and private sectors.¹

GAO Questionnaire

As a part of the feasibility study the GAO designed a questionnaire for the following purposes:

1. To test, for both present and possible future usefulness, a four-way cost classification model which, if feasible, might provide sounder bases for associating given costs with specific contracts or other cost objectives.
2. To obtain certain kinds of information about cost accounting practices now in use.
3. To invite respondents to volunteer information regarding criteria which they now apply in their cost accounting practices which might provide a basis for the development of cost accounting standards.
4. To obtain from respondents their opinions of a number of suggested cost accounting standards as an indication of the specificity with which cost accounting standards might be formulated.

5. To seek opinions from respondents about the feasibility of using advance agreements on accounting standards to be applied in Government contracts.
6. To obtain respondents' opinions regarding the acceptability of Armed Services Procurement Regulation Section XV, as a starting point for developing uniform cost accounting standards.²

On the basis of a Department of Defense listing of negotiated prime contracts awarded in fiscal year 1968, the GAO sent copies of the questionnaire to all contractors receiving contract awards in excess of \$10 million and to an average of 12 percent of all contractors receiving awards between \$100,000 and \$10 million. The GAO also sent copies of the questionnaire to such organizations as the Financial Executives Institute, the Council of Defense and Space Industries, the Strategic Industries Association, and the Machinery and Allied Products Institute. Because of an indicated strong interest in the questionnaire, the Comptroller General adopted the policy of sending a questionnaire to anyone who requested one, whether they had experience in Government contracting or not. The GAO mailed 2,153 questionnaires to companies and units in the private sector. In addition, the GAO mailed 284 questionnaires to Department of Defense personnel and also sent questionnaires to GAO regional offices and other Government entities.³

The responses from the companies and units in the private sector and the responses of the Department of Defense personnel were kept confidential and reviewed and analyzed by Robert K. Mautz and David L. Smith with K. Fred Skousen participating in the review and analysis of the private sector responses.

Equipped with the basic definitions and an awareness of the content, purposes, and coverage of the GAO questionnaire, this study now briefly reviews 17 reports submitted to the Comptroller General that were a part

of the GAO feasibility study. This chapter concludes with a review of the Comptroller General's report to Congress.

Troublesome Areas in Applying the Cost

Principles of ASPR Section XV

In a September, 1968, report entitled, "Troublesome Areas in Applying the Cost Principles of ASPR Section XV," the Defense Contract Audit Agency (DCAA) of the Defense Department reported that: "Despite the time limitation (8 working days), DCAA Regions and field audit offices have responded enthusiastically to a request ..."⁴ for comments on three areas--" ... (i) draft UCAS [Uniform Cost Accounting Standards] Study Objectives and Definitions, (ii) identification of the strength and weaknesses of the cost principles contained in ASPR Section XV, and (iii) ideas relative to the conduct of the UCAS feasibility study."⁵ Eighty-six responses resulted from the request and the responses were classified into 421 individual comments. The comments varied but were heavily concentrated in the areas of:

(i) Allocation, (ii) Current Expensing versus Deferral, (iii) Depreciation, (iv) Direct versus Indirect, and (v) IR&R/B&P [Independent Research and Development/Bidding and Proposal] Economic Planning. The large number of comments on the study objectives and definitions and ideas relative to the conduct of the Study, however, were somewhat unexpected and are indicative of the thought-provoking nature of these matters and of the interest of DCAA personnel in the Study.⁶

Review of ASBCA (Armed Services Board of

Contract Appeals) and Federal Court

Decisions Involving Accounting

Matters

Mr. B. B. Lynn, Deputy Director of the Defense Contract Audit Agency and a member of the Uniform Cost Accounting Standards (UCAS)

Steering Committee, succinctly summarized a May, 1969, report of the DCAA entitled, "Review of ASBCA and Federal Court Decisions Involving Accounting Matters," in the "Foreward" to the report. The report represents the findings of a study involving a review of decisions by ASBCA and the Federal Courts " ... on disputes between the United States Government and commercial contractors involving cost accounting matters."⁷

Lynn stated that even though differences of viewpoints existed between the decisions of the Federal courts and the ASBCA and also differences of viewpoints within each body existed, the analysis of both bodies of many cases over a ten year period revealed the following salient factors and patterns:

1. Recognition of the absence of an authoritative code of definitive accounting principles, and
2. Resulting requirements to decide accounting disputes through other means, including reliance on: contractual, regulatory or statutory provisions; intent of parties to the contract; equity; weight of expert testimony; and other ad hoc considerations.⁸

Lynn further commented:

It is significant to note that the disputes on cost accounting matters which reach judicial or quasi-judicial levels represent an infinitesimal portion of the controversies in this area. The overwhelming number of differences are settled between the parties to the contract through persuasion or negotiation. In the absence of an authoritative code of uniform cost accounting standards, these settlements are frequently limited in their applicability to the matter immediately at hand and lack continuing commitment or precedence. Accordingly, similar controversies have recurred periodically in the past and, under existing circumstances, are likely to continue in the future.⁹

A History of Principles for Determining
Costs of Performing Government
Military Contracts

In "A History of Principles for Determining Costs of Performing

Government Military Contracts," prepared in May, 1969, the Defense Contract Audit Agency presents a history of published principles for determining costs under defense contracts from 1916 through 1969. Contained in the report is a "Chronology of Significant Events in the History of Principles for Determining Costs of Performing Government Military Contracts."¹⁰ Included in the conclusion of the study is the following statement that relates closely to the feasibility study.

The applicability of cost principles to negotiated fixed-price contracts still remains a most controversial area. The current ASPR XV, unchanged in this regard since its publication in 1959, states that the principles should be used as a "guide" in pricing fixed-price contracts when costs are a factor in the negotiations. The language in the Regulation is susceptible, and has been subjected, to varying interpretations. Some Defense personnel use ASPR XV cost principles in pricing all negotiated contracts without distinction; many others are less consistent. Most contractors, of course, strongly resist the application of the cost principles to fixed-price contracts. The Armed Services Board of Contract Appeals (ASBCA) has consistently ruled that the application of the cost principles to fixed-price contracts is neither automatic nor mandatory and will recognize them only upon evidence that both parties agreed to their use when the contract was initially negotiated.¹¹ (emphasis added)

Feasibility of Applying Uniform Cost
Accounting Standards to Defense
Procurements

An ad hoc committee of the Federal Government Accountants Association (FGAA), consisting of a representative from the National Aeronautics and Space Administration; the General Services Administration; the Department of Health, Education and Welfare; the Interstate Commerce Commission; and the Defense Contract Audit Agency; issued a report in July, 1969, expressing the committee's views concerning the feasibility of applying uniform cost accounting standards to defense procurements.

On the basis of the committee's review and collective experience the committee concluded " ... that a more definitive set of uniform cost accounting standards than now contained in the FPR (Federal Procurement Regulations) or ASPR is required to assure that proposals received from responding sources are consistent accounting-wise."¹² In arriving at this conclusion, the ad hoc committee pointed out that the Government's needs are substantially different from the needs of others interested in the operations and condition of the corporation and therefore

... it must also follow that any set of uniform cost standards to be adopted should not be regarded as an extension of generally accepted accounting principles but rather as a set of separately prescribed standards directed primarily toward satisfying the Government cost data in connection with its defense material procurement activities.¹³

The ad hoc committee concluded its report with five proposed recommendations, the first of which was:

The committee believes uniform cost accounting standards for defense contracts are feasible and should be definitively formulated to provide the Government with greater assurance than cost data received from responding bidders and contractors are comparable and reflect real operating differences rather than the use of different accounting principles and practices.¹⁴

Early in the ad hoc committee report the committee stated that its basis for determining feasibility would rest upon a September 18, 1968, memorandum from the Office of the Special Assistant to the Comptroller General.

In essence, the statement proposes that the feasibility of adopting uniform cost accounting standards should be judged on a twofold basis; namely, (1) the capability of the standards to provide generally acceptable and valid cost data, and (2) their contribution toward enhancing the comparability, reliability and consistency of the cost data used for negotiating procurement contracts.¹⁵

The other recommendations of the ad hoc committee dealt with its views of establishing a permanent Uniform Cost Accounting Standards Board, the powers it should have, and the responsibilities of contractors to the Board.

Accounting Principles and Practices in Other Countries

As a part of the feasibility study the Defense Contract Audit Agency performed a limited literature survey of accounting principles and practices in other countries to attempt to determine the relevancy of such principles and practices to the feasibility of establishing uniform cost accounting standards. The report emphasized the accounting for inventory and fixed assets in the countries of the United Kingdom, France, Germany, Sweden, the Netherlands, Canada, and Japan. Even though the report provides a capsule view of the accounting practices in these countries with respect to inventories and fixed assets, B. B. Lynn stated in the foreward to the report that " ... our review suggested that accounting in other countries does not appear to have a direct relevancy to the feasibility study"¹⁶

Industry Views Regarding Major ASPR Revisions and Feasibility Study of UCAS

As a follow-up to the report entitled, "A History of Principles for Determining Costs of Performing Government Military Contracts," the Defense Contract Audit Agency reviewed industry comments, maintained as part of the DCAA Technical Data Bank, " ... directed primarily to the original Section XV of ASPR and Revision 50 to ASPR, which represent two of the major changes to the contract cost principles over the past

two decades."¹⁷ The DCAA also compared these comments with some stated reactions to the feasibility study of uniform cost accounting standards. After giving numerous examples of consistent opposition by industry to major revisions to the Defense Department cost principles proposed by the Government, the DCAA report observed:

... regardless of the nature and scope of the revisions proposed, industry for the past two decades has consistently cited the same reasons for opposing such revisions. For example, in the testimonies and statements presented during the Senate hearings, industry stated that UCAS would (i) destroy the free enterprise system, (ii) drive out contractors from the defense program, (iii) result in maintaining two sets of books, (iv) further reduce profits, (v) increase the overall costs of defense procurement, etc. It is interesting to note that industry had cited similar reasons in opposing both the original ASPR XV and Revision 50.¹⁸

The report concluded with the following statement:

During the past two decades, industry has opposed most major revisions to the DoD cost principles proposed by the Government. In some cases, the opposition is reflexive; in others, the opposition is predictable. Industry has withdrawn from earlier strong stands against certain revisions where subsequent events indicate that its apprehension has been groundless. In an attempt (sic) to prevent newer, additional proposals from being adopted, industry sometimes explicitly or implicitly endorses proposals which it had previously succeeded in rejecting in whole or in part. In some cases industry has praised the previously-adopted proposals as if it had never opposed them. In the respect, industry indicated its preference for the Green Book and T. D. 5000 over the original ASPR XV, when the latter was proposed, and for the original ASPR XV over Revision 50. As recent developments indicate, apprehensions concerning Public Law 90-370 have caused some industry representatives to even champion the entire ASPR Section (sic) XV, despite their persistent opposition to this regulation over the past two decades.¹⁹

Historical Development of Accounting Principles

In October, 1969, the American Institute of Certified Public Accountants (AICPA) submitted a report entitled, "Historical Development of Accounting Principles," to the Office of the Comptroller General.

The report traced the development of accounting principles from the 1920's through 1969. An integral part of the report dealt with the step-by-step development of an opinion of the Accounting Principles Board.

Historical Development of Procurement Methods

In response to a request by the Special Assistant to the Comptroller General, the Department of Defense, Installations and Logistics prepared a 47-page report summarizing the historical development of procurement methods.

Chapter 137 of Title 10, United States Code, which amended and codified the Armed Services Procurement Act of 1947, requires DOD contracts for property or services to be formally advertised, except under 17 specific situations where negotiation may be used.²⁰

About one-half of the report is devoted to a detailed background and to the development of each of the 17 situations. Other topics covered in the report include the advantages and limitations of formal advertising, the mechanics of formal advertising, criteria for effective use of formal advertising, effective procurement when formal advertising criteria cannot be met, DOD procurement regulation, contracting officers, qualified and eligible sources of supply, types of contracts, and the pricing of government contracts.²¹

Survey of the Adequacy of Contractors' Records

In November, 1969, the Special Assistant to the Comptroller General reported to the Comptroller General the results of a survey of 45 contractors regarding the adequacy of contractors' records in four specific areas: adequacy for the calculation of cost of performance;

adequacy for identifying costs by contract, line item, and change order; adequacy for yielding the information required for pricing reviews; and adequacy for comparing proposed costs with performance costs.²² In the cover letter to the report, the special assistant summarized the findings as follows:

At the 45 contractors surveyed, basic supporting documentation generally was available for accounting transactions. Difficulties were noted in the manner in which some contractors summarized data from source documents. In some cases, extensive reconstruction of contract costs would be needed.

Difficulties would be encountered in calculating overall cost of performance at 10 of the 45 contractors surveyed, as follows:

Annual Sales Volume	Contractors Reviewed	Records Considered	
		Adequate	Inadequate
Over \$50 million	18	18	-
\$15 to \$50 million	14	11	3
Under \$15 million	<u>13</u>	<u>6</u>	<u>7</u>
Total	<u>45</u>	<u>35</u>	<u>10</u>

The reason for the difference between large and small contractors, although not developed during the survey, seemed to be that, in the cases of smaller contractors, management was more closely associated with operations and the need for a sophisticated cost control or reporting system was reduced.

The principal difficulties encountered stem from the fact that many contractors' accounting systems did not always yield costs by contract, line item, and/or change order.

Comparisons of proposed and incurred costs could not be made readily at 20 (45 percent) of the contractors surveyed. In some cases, summary data related to cost of performance were not available. At others, there was a commingling of basic contract costs and change order costs. These difficulties were noted mainly with smaller contractors and smaller contracts.

Pricing reviews could not be performed effectively at several relatively small contractors, since time would have to be taken to reconstruct cost information from basic documentation.²³

At one point in the discussion of the calculation of cost of performance, the report states:

However, from our survey it appears that the basic problem is not whether records are available by which a contractor's interpretation of cost of performance can be evaluated but is whether the various cost treatments employed by contractors will permit uniform and meaningful determinations.²⁴ (emphasis added)

Survey of Procurement Cost Principles of Selected Federal Agencies

In a 57-page report, the Special Assistant to the Comptroller General fully discussed the results of a survey of procurement cost principles of selected Federal agencies. The report points out that there were significant differences between different Federal procurement regulations and also in the application of the regulations. In a three-page cover letter to the report, the special assistant summarized the report under nine areas. Although all areas in some way relate to the feasibility study, a portion of item number eight seems especially germane.

The majority of the civil agencies surveyed indicated they encountered difficulties with the FPR or ASPR cost principles. Most of the difficulties involve either the allocation or the determination of costs. The types of costs mentioned include costs for independent research and development, advertising, bidding, compensation for personal services, depreciation, pensions, general and administrative expenses, training, and certain indirect costs.²⁵

Analysis of Cost Principles and Procedures
Prescribed by the Renegotiation Board
and the Armed Services Procurement
Regulation

As a part of the uniform cost accounting standards feasibility study the Special Assistant to the Comptroller General made a survey of the accounting procedures and principles prescribed by the Renegotiation Board and compared the Renegotiation Board's accounting procedures and principles to those required by the Armed Services Procurement Regulations. The major finding of the survey is succinctly stated in the cover letter to the report as follows:

The report points out that costs allocable to a contractor's renegotiable business are to be determined in accordance with the method of accounting employed by the contractor in determining net income for Federal income tax purposes or with such other method as the Board and the contractor may agree upon. Thus a cost properly disallowed under the provision on allowability in the Armed Services Procurement Regulation will nevertheless be recognized for renegotiation purposes if such cost is a proper Federal income tax deduction.²⁶

Analysis of Responses on the Suitability of Using
Section XV of the Armed Services Procurement
Regulation in Developing Uniform Cost-
Accounting Standards

In a 95-page report, the Detroit Regional Office of the U. S. General Accounting Office presented the results of a questionnaire in which the opinions of professional organizations, trade associations, industry, and Government agencies were sought regarding the use of Section XV of the Armed Services Procurement Regulations in developing

uniform cost accounting standards.

In the cover letter to the report, the Special Assistant to the Comptroller General noted that in spite of some widely divergent views revealed in response to the questionnaire, in total the replies " ... indicate that section XV of ASPR offers at least a starting point for developing uniform standards."²⁷

Included in the report was a 49-page appendix containing a review submitted by the AICPA Committee on National Defense. Some of the conclusions of the review are as follows.

Section 15 is basically integrated with generally accepted accounting principles and cost accounting used by industry.

... Elements of Section 15 which have cost accounting significance are set forth in its coverage of allocability, generally accepted accounting principles and selected costs. Section 15 contains a good statement of allocability concepts which have general applicability; it also contains some allocation rules. In practice, there are wide differences among contractors in how these concepts and rules are applied.

... Section 15 seems to offer a number of suitable cost accounting concepts for use in developing uniform cost accounting standards. Finding such good starting points and proceeding with care, research and testing offer the best chance of success in developing a good set of cost accounting standards.

If the cost accounting elements of Section 15 were to become the core of uniform cost accounting standards, it is possible that specific guidelines could be developed which would provide guidance beyond generally accepted accounting principles.²⁸

Alan Peterson, one of the twelve members of the AICPA Committee on National Defense, dissented to the report of the committee. In a letter to Mr. Leonard Savoie, executive vice president of the AICPA, Peterson stated his reasons for dissenting.

I believe that a realistic review of ASPR XV would disclose that it is not suitable as a "starting point" for uniform accounting standards for defense contracts. First, ASPR XV is a pricing rule book rather than a document on cost accounting; second, ASPR XV is obsolete and defective even as pricing rules; and third, ASPR XV does not contain a good statement of accounting principles.

Thus, I do not believe Section XV of ASPR is a good "starting point" for suitable cost accounting concepts nor that Section XV should become the "core" of uniform cost accounting standards for defense contracts.²⁹

In addition, Peterson listed four assertions or observations made in the committee report to which he objected and he also stated that he felt a fresh start on the development of new cost accounting standards should be made based upon a clearly defined set of objectives of uniform standards.

In addition to the correspondence from the AICPA committee, the Detroit Regional Office report also contained letters and in some cases reports from the following organizations expressing their positions on the question of using ASPR XV as the starting point for developing uniform cost accounting standards: the National Association of Enrolled Tax Accountants, the Financial Executives Institute, the Council of Defense and Space Industry Associations, the Machinery and Allied Products Institute, the Associated General Contractors of America, and the Strategic Industries Association.

The report indicated that the views of industry and Government representatives were often directly opposite with respect to implementing guidelines contained in ASPR. "Generally, industry believed existing ASPR guidelines needed to be more flexible, whereas Government representatives believed that they should be more rigid."³⁰

Evaluation of Responses from Government

Entities to Part III of Questionnaire

The San Francisco Regional Office of the U. S. General Accounting Office prepared a 74-page report representing that office's evaluation of responses from Government entities to Part III of the GAO

questionnaire. "Part III of the questionnaire ... presents concepts which bear on the nature of cost-accounting standards and the overall feasibility of establishing and applying uniform cost-accounting standards."³¹ The GAO sent the questionnaire to three groups of Government entities: Government departments and agencies, members of the Interagency Regulatory Accountants Committee, and Procurement Office and Audit Office representatives of the National Aeronautics and Space Administration. Ninety percent of the Government departments and agencies, 64 percent of the members of the Interagency Regulatory Accountants Committee, and 100 percent of the NASA Procurement and Audit Offices that were sent questionnaires responded.

The basic conclusion of the San Francisco Regional Office is stated as follows:

The statistical tabulations of responses to the questionnaire and the respondents' narrative comments indicate that it is feasible to establish uniform cost-accounting standards, similar to those presented in part III of the questionnaire, to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more.

About 63 percent of the combined responses made by the Government departments and agencies, Interagency Regulatory Accountants Committee, and NASA Procurement and Audit Offices categorized the eight proposed standards in questions 20 through 27 as "about right." The remainder of the responses cited the proposed standards as being either "too restrictive" (17 percent) or "too flexible" (20 percent). Overall responses to question 28 and 29, which proposed that cost-accounting standards applicable to Government contracts be essentially the same as those for commercial purposes and that advance agreements be negotiated covering cost-accounting standards a contractor agrees to follow, were strongly in the "yes" category at 89 percent and 70 percent, respectively.³²

The San Francisco Regional Office also stated that from " ... the comments and recommendations, the need for emphasizing consistency in the application of cost-accounting standards was clearly evident."³³

Evaluation of Responses from General Accounting
Office Regional Managers to Parts III and IV
of Questionnaire

The GAO sent copies of the questionnaire to the 16 regional offices of the General Accounting Office with the request that each office present its position on Parts III and IV of the questionnaire. The contents of part III of the questionnaire were described on pages 166 and 167 of this study. "In part IV of the questionnaire the regional offices were asked to evaluate the applicability and adequacy of specified paragraphs in section XV of ASPR as bases for uniform cost-accounting standards."³⁴

The Defense Division of the U. S. General Accounting Office evaluated the responses of the regional offices and prepared a 57-page report summarizing their evaluation. With regard to part III of the questionnaire, the Defense Division reported:

Although the responses showed significant differences of opinion on practically every proposed standard, only two of the eight propositions were rejected by a majority of the offices and none was rejected unanimously. A clear majority of the offices endorsed the proposed standards in questions 20 (depreciation), 22 (maintenance), 23 (support for cost data), 24 (allocation bases for objectively traceable and ascribable costs), and 27 (accumulation and allocation of indirect costs). The offices split evenly on the proposed standard in question 26 on the adequacy of cost-accounting records and rejected the standards in question 21 on direct labor charges, and in question 25 on the allocation bases for generally allocable costs.³⁵

Even though there was a diversity of opinion on nearly all the questions, the Defense Division concluded that three things would be necessary to ensure wide acceptance by GAO regions of uniform cost accounting standards.

First, the regional offices draw a very fine dividing line between a standard and a procedure or method. An acceptable cost-accounting standard would have to be stated broadly enough so as to recognize the great variety of conditions and circumstances existent in industry and would have to encompass within it procedures and methods designed to meet these circumstances, yet, on the other hand, it would have to be specific enough to serve as a meaningful guide and to promote uniformity and comparability of accounting results.

... Second, an acceptable standard would have to be brief but not at a sacrifice in clarity.

... Finally, an acceptable cost-accounting standard would have to confine itself to providing guidance on acceptable practices without attempting to define the role of the Government auditor vis-a-vis the contractor.³⁶

In response to the question as to whether cost accounting standards for Government contracts should be essentially the same as those appropriate for commercial purposes, the regional offices with few qualifications responded in the affirmative. There was a lack of agreement among respondents to the question of whether advance agreements between the Government and contractor would be desirable.³⁷

In evaluating the responses to part IV of the questionnaire, the Defense Division indicated that before some of the paragraphs of section XV of ASPR would be accepted as a satisfactory guideline for cost-accounting practice, revisions would be necessary to make the paragraphs more specific and to remove ambiguities.³⁸ The responses provided inconclusive evidence with regard to the extent of revision other specified paragraphs of section XV would need in order to create a satisfactory cost-accounting standard.³⁹

Examples of Contractors' Deviations from
Consistent Practices or Differing
Accounting Treatments as Cited
in DCAA Audit Reports
(Supplement)

In July, 1969, the Defense Contract Audit Agency submitted a report entitled, "Examples of Contractors' Deviations from Consistent Practices or Differing Accounting Treatments as Cited in DCAA Audit Reports," in which the DCAA cited some 50 cases of specific problems regarding

(i) allocation of indirect costs (other than corporate office expenses), (ii) classification of costs as between direct and indirect, and (iii) election of whether costs should be capitalized or charged to expense.⁴⁰

The Comptroller General requested that the DCAA supplement the July, 1969, report with a study concerning corporate office expenses and other expenses and costs. The results of the second study were reported in December, 1969.

The objective of the study was " ... to further illustrate the types of contract auditing and negotiation problems that are likely to continue in the absence of an authoritative code of uniform cost accounting standards."⁴¹ The DCAA selected 27 diversified companies to illustrate problems of allocating corporate office expense and 35 audit reports issued by DCAA during fiscal years 1968 and 1969 to illustrate allocation problems relating to other expenses and costs.

The report of the DCAA on the results of the survey included several examples of the diversity of allocation methods used by various companies. In the conclusion to the report, DCAA stated:

The significance of the amounts allocated to Government contracts (e.g. \$200 million annually by 27 companies) and the extremely wide diversity of practices strongly indicate the need for the establishment of specific criteria and guidance concerning the allocation of corporate office expenses. The fact that no two companies used identical allocation methods points up two things: (i) there are divergent views partly because, as discussed previously, the subject of corporate office expense allocation has been accorded very little attention by academicians and authorities of the profession, and (ii) the establishment of criteria and guidance for this type of costs would be a very difficult (but not an impossible) task.

As further indicated by the examples in Part II of this report, an authoritative code of uniform cost accounting standards is also needed in other areas of contract costing. To reiterate, these include but are not limited to: allocation of other indirect costs, classification of costs as between direct and indirect, and election of whether costs should be capitalized or charged to expense.⁴²

Flexibility of Generally Accepted

Accounting Principles

"In September, 1969, the GAO issued and requested comments on its draft report entitled, 'Study of the Feasibility of Applying Uniform Cost Accounting Standards to Negotiated Prime Contracts and Subcontracts of \$100,000 or More.'⁴³ The draft report concluded that uniform cost accounting standards were feasible. Many industry associations disagreed with the GAO conclusion, criticized the report for "... downgrading, or at least failing to recognize the usefulness of existing generally accepted accounting principles (GAAPs) to accomplish the required objectives,"⁴⁴ and questioned the representativeness of the illustrations contained in the July, 1969, report of "Contractors' Deviations from Consistent Practices or Differing Accounting Treatment of Costs."

To answer the criticism, in addition to the report reviewed in the

previous section, the Defense Contract Audit Agency selected and reviewed 18 articles on the flexibility of generally accepted accounting principles in well-known accounting and business periodicals. On the basis of the review the DCAA concluded:

The articles in professional and business publications ... indicate the following consensus: (i) accounting practices for similar circumstances are diverse among companies and even interperiod consistency is not always adhered to, mainly because of the extreme flexibility permitted by GAAPs; (ii) such practices are not uncommon and have a significant impact on the results of operations of the companies involved; (iii) authorities attribute these practices to such factors as managements' propensity to manipulate reported income, the companies' desire to 'follow the leader' to stay competitive, a means to fend off take-overs, etc; and (iv) a number of authorities are also concerned about the existing conditions. 45

The report pointed out that even though the articles reviewed dealt with financial accounting there are implications for cost accounting and contract costing.

An Evaluation of Auditor and Contracting Officer
Responses to United States General Accounting
Office Questionnaire

In February, 1970, Robert K. Mautz and David L. Smith transmitted a report to the Comptroller General containing an evaluation of auditor and contracting officer responses to Parts III and IV of the GAO questionnaire. In addition to presenting some of the narrative responses of the parties, the report contained tables presenting a comparison of Government personnel responses to contracting units' responses with respect to part III of the questionnaire and a detailed tabular analysis of the responses to part IV of the questionnaire.

In the cover letter to the report, Mautz succinctly stated the conclusions of this part of the study.

Conclusions drawn from study of the categorical responses by these government employees and also from their narrative answers to certain questions support the conclusions drawn from study of the questionnaires returned by the representatives of contracting units reported elsewhere. There is a significant difference, however. The government employees whose answers to the questionnaire are summarized in this report are generally more favorably inclined toward the establishment of cost accounting standards for contract purposes than were the responding representatives of contracting units. Likewise, they tend to favor a stricter wording of standards than did the representatives of contracting units.⁴⁶

Report on the Feasibility of Applying Uniform
Cost-Accounting Standards to Negotiated
Defense Contracts

On the basis of the above 17 reports and other inputs, the Comptroller General prepared and sent to the House Committee on Banking and Currency a "Report on the Feasibility of Applying Uniform Cost-Accounting Standards to Negotiated Defense Contracts" in January, 1970.

In explaining why the study was made, the report states that in Congressional debate ...

views were expressed that uniform cost-accounting standards are necessary mainly because of substantially increased costs of procurement and difficulties in contract administration. In a negotiated bid situation the estimate of a contractor's cost plays an important role in the establishment of the price. The cost of any specific order can only be measured by the application of cost accounting principles.

... the view was expressed that the essential function of cost accounting is to allocate direct and overhead costs to individual orders. Thus, the cost-accounting principles followed have a large impact on the determination of contractor costs.⁴⁷

The findings and conclusions of the 558 page report of the Comptroller General were stated as follows:

"General cost principles and procedures" for use in negotiated Defense contracts are contained in Section XV of the Armed Services Procurement Regulation (ASPR). However, the effectiveness of section XV is impaired because:

--It makes frequent references to generally accepted accounting principles and/or regulations of the Internal Revenue Service, neither of which was intended to serve contract costing purposes.

--It lacks specific criteria for the use of alternative accounting principles and indirect cost allocation methods.

--It is of limited applicability, since it is mandatory for only cost-reimbursement type contracts.

Uniform cost-accounting standards could provide a common framework for estimating prospective cost or for the determination of the actual cost of a contract. They could provide the guidance, support, and coordination required for better understood estimates and subsequent reports of actual costs.

It is feasible to establish and apply cost-accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts.

However, under all the wide variety of circumstances involved in Government contracting, it is not feasible to establish and apply cost-accounting standards in such detail as would be necessary to ensure a uniform application of precisely prescribed methods of computing costs for each of the different kinds of cost.

Cost-accounting standards should not be limited to Defense cost-type contracts. They should apply to negotiated procurement contracts and subcontracts, both cost-type and fixed price. They should be made applicable Government-wide.

Cumulative benefits from the establishment of cost-accounting standards should outweigh the cost of implementation.

New machinery should be established for the development of cost-accounting standards. The objective should be to adopt at an early date the standards of disclosure and consistency and to strive for the elimination of unnecessary alternative cost-accounting practices.

Contractors should be required to maintain records of contract performance costs in conformity with cost-accounting standards and any approved practices set forth in a disclosure agreement or be required to maintain the data from which such information could be readily provided.⁴⁸

Three hundred sixty pages of the Comptroller General's report is a reproduction of a report prepared for the Comptroller General by Mautz, Skousen, and Smith in which they evaluate responses to the GAO questionnaire. The major conclusions from the GAO questionnaire survey were:

1. It is feasible to develop and establish an authoritative set of propositions, general in nature yet definitive in providing for the accumulation and reporting of costs of contracts or other cost objectives.
2. Considerable difficulty must be anticipated in stating such a set of propositions so that they are meaningful to the variety of contractors who will be affected by them, so that they are applicable with reasonable equity in the variety of circumstances in which contracts are performed, and so that their imposition upon contractors does not reduce the availability of necessary products and services to the Government.
3. Such a set of propositions can make a significant contribution to contract cost determination and reporting. Certain aspects of cost determination, however, are not susceptible to control by accounting practices alone and require the cooperation of those responsible for contract negotiation, contract administration, and cost accounting activities.⁴⁹

Eighty pages of the Comptroller General's report is a reproduction of a research report prepared by William J. Vatter in which he " ... reviewed the field of cost analysis from the viewpoint of standards--not procedures or rules."⁵⁰ Vatter concluded that the feasibility of applying uniform cost accounting standards to be used in defense contracts depends

... upon what conceptual structure is accepted as the rationale of cost determination--not only with respect to contracts and reimbursements, but also as to managerial needs, generally. Without such a conceptual structure, the establishment of rules and procedures becomes disorganized and confused; unless the underlying concepts and criteria are defined, methods are mere rituals; unless there is a framework to relate ideas and to test their consistency, there is little chance for agreement on what should be done or how it may best be accomplished.⁵¹

Vatter pointed out that his report did not argue for or against feasibility but for integrity and validity in the underlying ideas.

In addition to the reports of Vatter and Mautz, Skousen, and Smith, the Comptroller General's Report contains other appendices on: basic legislation, definitions, and scope of feasibility study; existing "contract cost principles and procedures" in the Armed Services Procurement Regulation; problem areas in the assignment of Government contract costs; and a summary of significant comments on the earlier draft report on the study of the feasibility of adopting uniform cost-accounting standards. The report, exclusive of the appendices, contained 23 pages divided into four chapters: Introduction, Cost-Accounting Standards Potential Benefits and Limitations, Major Cost Accounting Problem Areas, and Conclusion and Recommendations.⁵²

This review of the House and Senate activities of 1968 and the salient features of the GAO feasibility study, along with the awareness of the social forces present, provide an adequate background for a review of the Senate and House activities of 1970.

Summary

The Comptroller General, in response to the requirements of Public Law 90-370, made a study of the feasibility of applying uniform cost accounting standards to all negotiated defense prime contracts and sub-contracts of \$100,000 or more. The Comptroller General used the talents of members of Government, industry, academia, and the accounting profession in doing the study.

One of the tools used in the study was a questionnaire that was sent to 2,153 companies and units in the private sector. The major

conclusions of the questionnaire survey were stated on page 175 of this study. In addition to the questionnaire survey, the Comptroller General received reports from various individuals, groups of individuals, and agencies of the Federal Government.

On the basis of his study, the Comptroller General prepared and sent to the House Committee on Banking and Currency a "Report on the Feasibility of Applying Uniform Cost-Accounting Standards to Negotiated Defense Contracts." Among other things the report concluded that:

It is feasible to establish and apply cost accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts.⁵³

FOOTNOTES

¹U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Troublesome Areas in Applying the Cost Principles of ASPR Section XV (Washington, 1968), Appendix A.

²U. S. Comptroller General, Report on the Feasibility of Applying Uniform Cost-Accounting Standards to Negotiated Defense Contracts (Washington, 1970), p. 131.

³Ibid., pp. 129, 147-148.

⁴Defense Contract Audit Agency, Troublesome Areas ..., p. 1.

⁵Ibid.

⁶Ibid.

⁷U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Review of ASBCA and Federal Court Decisions Involving Accounting Matters (Washington, D. C., 1969), Foreword.

⁸Ibid.

⁹Ibid.

¹⁰U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): A History of Principles for Determining Costs of Performing Government Military Contracts (Washington, D. C., 1969), n.p.

¹¹Ibid., p. 13.

¹²Federal Government Accountants Association Ad Hoc Committee Research Report, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Feasibility of Applying Uniform Cost Accounting Standards to Defense Procurements (Washington, D. C., 1969), p. 10.

¹³Ibid., pp. 7-8.

¹⁴Ibid., pp. 13-14.

¹⁵Ibid., p. 2.

¹⁶U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Accounting Principles and Practices in other Countries (Washington, D.C., 1969), Foreword.

¹⁷U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Industry Views Regarding Major ASPR Revisions and Feasibility Study of UCAS (Washington, D. C., 1969), Foreword.

¹⁸Ibid., p. 10.

¹⁹Ibid., pp. 10-11.

²⁰U. S. Department of Defense, Installations and Logistics, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Historical Development of Procurement Methods (Washington, D.C., 1969), p. 1.

²¹Ibid., pp. 29-44.

²²U. S. General Accounting Office, Philadelphia Regional Office, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Survey of the Adequacy of Contractors' Records (Washington, D.C., 1969).

²³Ibid., pp. 1-2.

²⁴Ibid., p. 5.

²⁵U. S. General Accounting Office, Office of Special Assistant to the Comptroller General, Report to the Comptroller General of the United States: Study of the Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Survey of Procurement Cost Principles of Selected Federal Agencies (Washington, D. C., 1969), p. 3 of cover letter.

²⁶U. S. General Accounting Office, Office of the Special Assistant to the Comptroller General, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Analysis of Cost Principles and Procedures Prescribed by the Renegotiation Board and the Armed Services Procurement Regulation (Washington, D. C., 1969), cover letter.

²⁷U. S. General Accounting Office, Detroit Regional Office, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Analysis of Responses on the Suitability of Using Section XV of the Armed Services Procurement Regulation in Developing Uniform Cost-Accounting Standards (Washington, D. C., 1969), p. 1 of cover letter.

²⁸U. S. General Accounting Office, Detroit Regional Office, pp. 66-67.

²⁹Ibid., p. 70.

³⁰U. S. General Accounting Office, Detroit Regional Office, p. 2 of cover letter.

³¹U. S. General Accounting Office, San Francisco Regional Office, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Evaluation of Responses From Government Entities to Part III of Questionnaire (Washington, D. C., 1969), p. 1.

³²Ibid., p. 4.

³³Ibid., p. 5.

³⁴U. S. General Accounting Office, Defense Division, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Evaluation of Responses from General Accounting Office Regional Managers to Parts III and IV of Questionnaire (Washington, D. C., 1969), p. 5.

³⁵Ibid., p. 3.

³⁶Ibid., pp. 3-4.

³⁷Ibid. p. 4.

³⁸Ibid., p. 5.

³⁹Ibid., pp. 5-6.

⁴⁰U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Examples of Contractors' Deviations from Consistent Practices or Differing Accounting Treatments as Cited in DCAA Audit Reports (Supplement) (Washington, D. C., 1969), pp. iii-iv.

⁴¹Ibid., p. i.

⁴²Ibid., pp. iv-v.

⁴³ U. S. Department of Defense, Defense Contract Audit Agency, Report to the Comptroller General of the United States: Study of Feasibility of Adopting Uniform Cost Accounting Standards (Public Law 90-370): Flexibility of Generally Accepted Accounting Principles (Washington, D. C., 1969), Foreword.

⁴⁴ Ibid., p. 1.

⁴⁵ Ibid., p. 9.

⁴⁶ Mautz, Robert K. and David L. Smith, Report to the Comptroller General of the United States: An Evaluation of Auditor and Contracting Officer Responses to United States General Accounting Office Questionnaire Use in the Study of the Feasibility of Adopting Uniform Cost-Accounting Standards (Washington, D. C., 1970), cover letter.

⁴⁷ U. S. Comptroller General, p. vii.

⁴⁸ Ibid., p. viii.

⁴⁹ Ibid., p. 138.

⁵⁰ Ibid., p. 552.

⁵¹ Ibid., p. 481

⁵² Ibid., p. ix.

⁵³ Ibid., p. viii.

CHAPTER VI

COST ACCOUNTING STANDARDS LEGISLATIVE ACTIVITIES FOLLOWING THE GAO STUDY

Introduction

Congress, in 1970, again faced the issue of what to do about uniform cost accounting standards for defense procurement contracts. In addition to previous testimony, Congress now had to consider the findings and conclusions of the Comptroller General's report. During 1970, hearings were held on the question of uniform cost accounting standards. The hearings were followed by Congressional reports and debates. Chapter VI reviews the hearings before the Senate Subcommittee on Production and Stabilization of the Committee on Banking and Currency, Senate Report 91-890, the hearings before the House Committee on Banking and Currency, the Senate action on S. 3302, the Report of the House Committee on Banking and Currency - Report No. 91-1330, the Joint Resolution, the House Debate on H. R. 17880, the Conference Report, and the final actions on S. 3302. The black-bordered area of Figure 4 on page 183 shows the parts of the CASB legislative processes covered in Chapter VI.

The reader is reminded to seek answers to the questions stated on page 114 of this study to attempt to determine the credibility and persuasiveness of the witnesses.

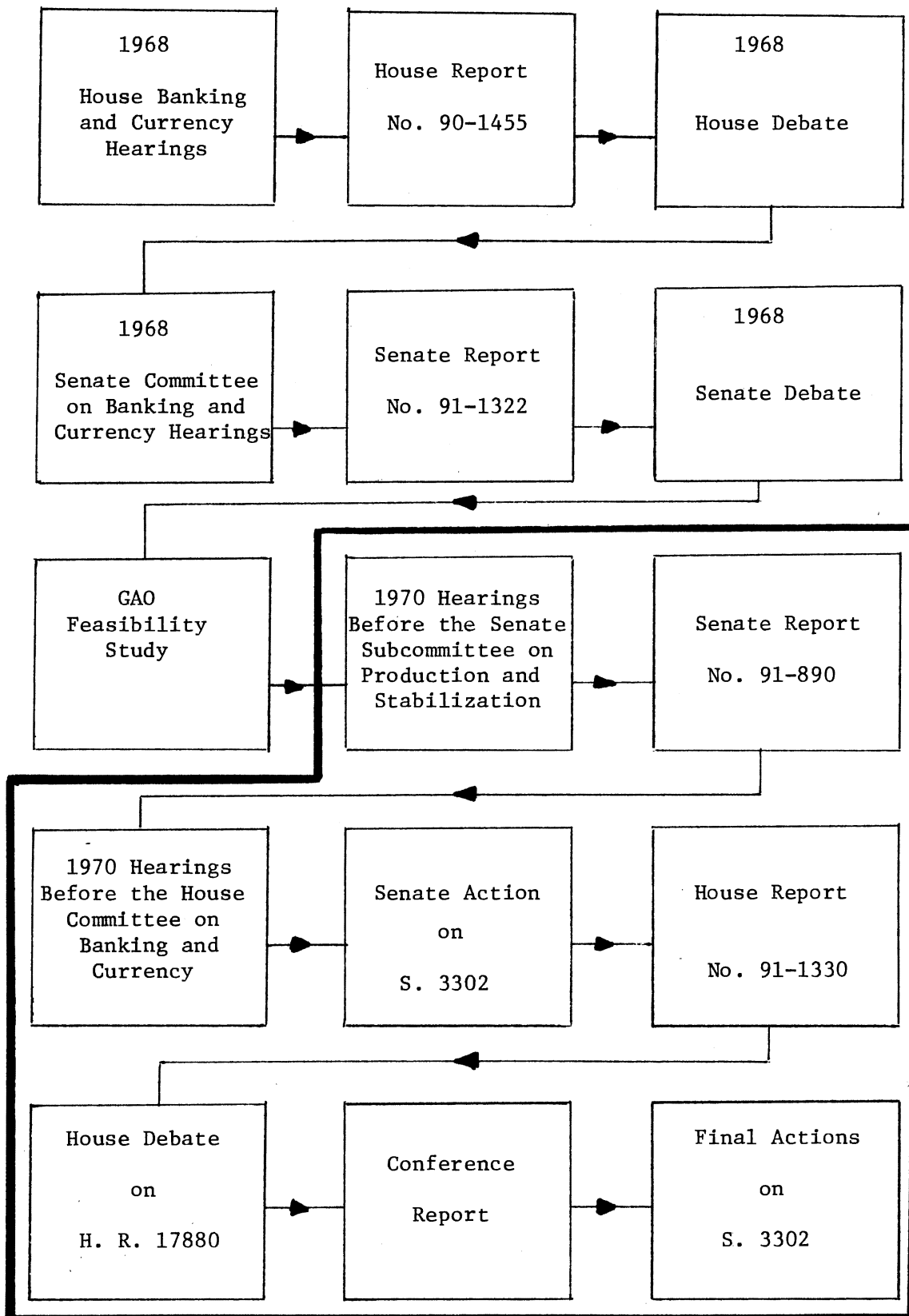


Figure 4. The Path of the CASB Legislation--D

Hearings Before the Senate Subcommittee on
Production and Stabilization of the
Committee on Banking and Currency

Introduction

On December 23, 1969, Senator Proxmire introduced S. 3302 to the Senate which among other things amended section 718 of the Defense Production Act by requiring the GAO to promulgate uniform cost accounting standards within 18 months of enactment of the legislation.¹ Senator Mondale, chairman of the Senate Subcommittee on Production and Stabilization of the Banking and Currency Committee, announced on March 20, 1970, that the subcommittee would hold hearings on March 31, April 1 and 2, 1970, regarding the implementation of uniform cost accounting standards for defense procurement contracts. In addition, Mondale submitted, for the record, two alternative proposals prepared by the GAO which implement the recommendations contained in the GAO report and stated that the GAO proposals would also be considered at the hearings.²

On March 31 and April 1 and 2, 1970, the Senate Subcommittee on Production and Stabilization of the Committee on Banking and Currency held hearings on A Bill to Amend the Defense Production Act of 1950, and For Other Purposes. The primary purpose of the hearings was " ... to consider uniform cost accounting standards including S. 3302 and legislative proposals submitted by the General Accounting Office."³

Testimony of Senator Proxmire

Senator Proxmire, introduced by Senator Mondale as the chief sponsor of the uniform cost accounting concept, was the first witness to

appear before the committee. Proxmire indicated that S. 3302 would give the Comptroller General the authority to establish uniform cost accounting standards for negotiated defense contracts and this in turn would help to alleviate one of the most serious shortcomings in defense procurement. Pointing out that Congress had passed a wide variety of consumer protection bills, Proxmire lamented the fact that the Department of Defense had no reliable means of measuring the true cost of defense work.

Senator Proxmire alluded to the various studies that had been produced about defense profits, many of them reaching opposite conclusions, and pointed out that no one actually knows the amount of defense profits. He claimed that under existing conditions it would be possible for defense contractors to pad their cost estimates and thereby hide profits. Proxmire also claimed that, under existing conditions, contractors were able to subsidize their commercial operations by charging independent research and development expenses to Government contracts by way of overhead.

While admitting that uniform cost accounting standards would not solve all defense procurement problems, Proxmire stated he felt uniform cost accounting standards would be a step in the right direction.⁴

Testimony of Elmer B. Staats

Elmer B. Staats, Comptroller General of the United States, was the second witness before the committee. Staats focused his remarks on the GAO report and legislative proposals regarding the development of uniform cost accounting standards. In his opening remarks Staats stated that the Department of Defense, a large segment of the accounting

profession, and many industrial organizations agreed that cost accounting standards were both feasible and needed. Much of Staat's testimony was merely a restatement of the first 23 pages of the written report he had already made to Congress concerning the feasibility of establishing cost accounting standards. However, Staats did express the views of the GAO regarding Senate bill 3302 and the two alternative bills.

Staats, while agreeing with the objective of S. 3302, expressed the view that

... the issuance of cost-accounting standards without provision for modification, interpretation, broad application, and enforcement will not be fully responsive to the objective of attaining a greater degree of uniformity and consistency in cost accounting.⁵

He observed that the GAO considered the issuance of cost accounting standards to be a continuing process and therefore there was a need for a continuing Board.

In discussing Alternative No. 1 to S. 3302, Staats explained that the Comptroller General would have the responsibility of promulgating cost-accounting standards and would be assisted by an advisory board composed of representatives from both inside and outside the Federal Government. Alternative No. 2 to S. 3302 provides for an independent board composed of members from inside and outside the executive branch of Government with the President selecting the members of the board. In other respects the alternatives to S. 3302 were basically the same and had the following features:

... cost accounting standards would apply to negotiated contracts with all Federal agencies. The legislative proposals would also authorize the promulgation of rules and regulations for the implementation of cost-accounting standards.

Such regulations may require contractors and subcontractors to disclose in writing their cost-accounting practices and to agree to contract price adjustment with interest for any increased cost incurred by the Government because of their failure to comply with the cost-accounting standards promulgated.

... We feel the advance disclosure of accounting practices and a requirement for consistent application of approved practices to be the basic essentials for successful implementation of cost-accounting standards.⁶ (emphasis added)

Staats enumerated the following differences as he contrasted the common features of S. 3302 with Alternatives No. 1 and No. 2. S. 3302 limited the application of cost-accounting standards to contracts of \$100,000 or more whereas neither of the alternatives placed any limitation on the application. Neither of the alternatives placed a time limit on the promulgation of cost-accounting standards whereas S. 3302 placed an 18 month time limit on the task.

At the conclusion of his statement, Staats indicated that the GAO preferred Alternative No. 2 for two reasons:

First, we question whether the GAO should become deeply involved in the administration of negotiated contracts. The responsibility for administration of contracts, including promulgating, interpreting and administering cost-accounting standards seems basically to us an executive branch function. Rules and regulations covering Federal Government procurement are now a function of the executive branch. There does not appear to be any reason to divorce the promulgation of cost-accounting standards from the executive branch.

In addition, an independent board appointed by the President might well have greater prestige and attract more capable members. We are thinking here particularly of those outside of the Government. It could not be accused of having any bias by reason of having worked on the feasibility study or any preconceived ideas of what the standards should be.⁷

Senator Mondale disagreed with Staats's suggestion that the Board be appointed by the President and indicated a preference for having the Board not be an executive agency.

In a discussion with Senator Proxmire, Staats claimed the

Government was being double charged, in some cases, because there was no system of cost accounting standards and because of a lack of consistency in contract procurement activities. The concept of consistency to which Staats had reference was stated as follows:

... to apply the same practices consistently from the time your cost proposals are submitted and evaluated, as to what you are going to get in the contract, clear through the whole process of administration, which includes modifications, change orders, disputes, and final settlement.⁸

He expanded his concept of consistency in the following way: "You may have procurement with more than one service or more than one agency of the same general type. We think the same standards should apply in all those circumstances if they are the same."⁹

Staats said that the GAO thought there were three standards that could be established rather quickly: a consistency standard, a written disclosure agreement laying the ground rules regarding the contract, and a written performance record. In response to a question by Proxmire, Staats refused to put a dollar figure on the amount he thought could be saved if cost accounting standards were promulgated and merely replied that the GAO thought the savings would be substantial.

Proxmire also raised the question of whether the Board should be an independent Board appointed by the President. Pointing out that the GAO had an established base of expertise upon which to build and alluding to the ineffectiveness of many independent agencies, Proxmire stated he favored having the GAO or the Comptroller General in charge.

In addition to answering questions concerning other aspects of the GAO report and Alternatives No. 1 and No. 2, Staats briefly discussed the requirements of staffing the Board and later submitted a report of suggested staffing requirements for the record. His testimony was

followed in the record, by two reports (reviewed earlier in this study): "Analysis of Responses on the Suitability of Using Section XV of the Armed Services Procurement Regulation in Developing Uniform Cost-Accounting Standards" and "Review of ASBCA and Federal Courts Decisions Involving Accounting Matters."

Testimony of Kenneth M. Jackson

Kenneth M. Jackson, chairman, procurement regulations committee of National Aerospace Services Association, was the third witness to appear before the committee. Jackson described National Aerospace Services Association (NASA) as being a national trade association with 38 member companies, both large and small, engaged in a variety of aerospace activities on an international scale.

In beginning his testimony Jackson said " ... I want to be crystal clear about my conclusions: It is feasible and desirable to develop uniform cost-accounting standards."¹⁰ He then stated that he felt the standards should not be limited to Government contracts but could be required for publicly owned companies and for the Federal Government and its agencies also. Jackson said, "Either cost-accounting standards are right for all or they are right for none."¹¹ He also indicated that he thought cost-accounting standards should be applicable to all contracts and not to only negotiated contracts of Government agencies.

Jackson gave his views on several issues raised in the GAO report and raised some not contained therein. He also listed some additional benefits that he thought would result from the promulgation of cost-accounting standards and gave several suggestions regarding the proposed legislation. Additional benefits cited by Jackson were:

1. Developing a logic an (sic) language of cost accounting for improved communication, stability of relationships and confidence in dealings would promote less disputes between Government and industry
2. It follows that one of the most important benefits will be clarity of relationships and some automatic protection on contractor's rights.
3. Existing management systems used to track program progress would benefit from the application of standards by assuring that the contractor and the Government have policies and procedures adequate to produce data compatible with the objectives of the reports.¹²

Suggestions regarding the proposed legislation as cited by Jackson were that all versions should:

1. Be made independent of the Defense Production Act, because of the Comptroller General's recommendation to apply it Government-wide and in view of my suggestions to expand beyond the area of Government contracts into other Government and private sector work.
2. Remove any limitation in application to negotiated prime and subcontracts for reasons stated above.
3. Prescribe the use of uniform cost accounting standards as a basis for SEC reporting, public regulated prices discounts, necessary investigations, consumer protection, and Federal agency budgeting and accounting.
4. Provide a mechanism for changes in the disclosure agreements to recognize changed circumstances.
5. Provide a mechanism for "disputes" or appeal in the case of hardship cases or in the case of proposed imposition of penalties for noncompliance inconsistencies.
6. Provide for a longer time period, at least 90 days, for coordination of proposed implementation, or changes to implementations of the cost accounting standards. The reason for this is to reflect the time period necessarily consumed by affected groups trying to achieve the most equitable solution.
7. Limit the access to records by the Comptroller General to the same period presently provided, namely 3 years after final payment, or in the case of nondefense companies, to no longer than the time period available under IRS rules. Otherwise, you would have a records nightmare, inequities, and dilatory reviews.

8. Require changes to Federal procurement regulations, ASPR, AEC, and other cost-related regulations in order to eliminate any separate statement of cost accounting principles or standards; to eliminate selected cost principals which depend for their interpretation upon cost accounting judgments of the type that would be covered by standards, (sic) and to minimize disallowances of legitimate business expenses.
9. As suggested, it is most important to provide for incremental review of the promulgation process and to have common effectivity dates to avoid any risks of impairing the competitive process.¹³

In response to a question from Proxmire, Jackson suggested that cost accounting standards might lighten record keeping requirements of small companies. Jackson also clarified the point that he was speaking for the National Aerospace Services Association when he said it is feasible and desirable to develop uniform cost-accounting standards. Proxmire found this to be interesting and helpful because industry associations had consistently opposed cost accounting standards.¹⁴

Testimony of Howard W. Wright

Howard W. Wright, professor and chairman, division of accounting, University of Maryland, and drafter of part 2, section XV, Armed Services Procurement Regulation, "Contract Cost Principles and Procedures," was the fourth committee witness. In his opening remarks, Wright stated that he was a coauthor of the only book on Federal Government accounting and the sole author of "Accounting for Defense Contracts."¹⁵

Wright, while stating that he concurred with the Comptroller General's finding that it was feasible to establish and apply uniform cost-accounting standards, said he had some concern about " ... UCAS incorporating general rules of procedures since the report does not distinguish between general rules and specific rules."¹⁶ He also

expressed grave doubts about the magnitude of the proposed effort and discussed reservations he had about some of the recommendations of the report. Regarding the problem areas cited in the GAO report, Wright said:

I suggest that the Comptroller General primarily has cited cases which already are violations of existing regulations. No change in a regulation is going to be self-enforcing. Thus, the cases, which seem to demonstrate a need for UCAS in my judgment fail to do so in the degree implied.¹⁷

Wright also challenged the small number of cases presented--120 of more than 200,000 contract actions over \$10,000 of the Department of Defense annually--by the GAO in illustrating the problem areas. (Researcher's Note: Later in his testimony, Wright makes a broad generalization from a sample of two cases.)

Wright argued that many of the conclusions and recommendations of the report dealt with administrative rather than accounting matters and he suggested there was no need for a change in existing cost principles. He also argued against disclosure and consistency as set forth by the GAO. Regarding disclosure, Wright suggested that although there might not be agreement between the contractor and the Government auditors regarding the methods used, there was a knowledge by both parties of what methods existed. Wright argued that the GAO concept of consistency was rigid and unrealistic. Expressing opposition to advance written disclosure statements, Wright cited two cases with which he was familiar in which they worked to the disadvantage of the parties to the agreement and suggested that these cases indicate the dangers of advance agreements.

Concerning the GAO report as a whole, Wright said:

... while I concur in the feasibility of establishing UCAS, I question the need for them or the wisdom in proceeding further. No real evidence of need has been established. There is no estimate in the report of cost savings likely to result from UCAS. The report has in no way validated an earlier estimate of a probable \$2 billion saving. Certainly had any supportive evidence existed, it would have been presented.¹⁸

Wright stated that the main reason he opposed the UCAS project was because, "Although I readily admit some improvements in ASPR XV can be made, I am concerned that any effort to do so may well destroy the balance which now exists."¹⁹ Stating that he recognized that legislation would probably result from the hearings, Wright expressed his views on the three proposed legislative bills and indicated a preference for Alternative No. 2 even though he had serious reservations concerning some of its provisions.

He concluded his statement with the following observation and recommendation.

In summary, this situation is much like a Greek tragedy. Circumstances seem to be inexorably moving toward an undesirable conclusion. No need for any major change has been established. No major faults have been exposed. No evidence of excess costs to the Government has been advanced. Three pieces of legislation have been proposed, all of which have major weaknesses. Of the three, I have endorsed that which appears to be the least undesirable. I do not consider it to be an optimum solution to whatever problem may exist.

I recommend that the committee consider another alternative. I suggest that the Cost Accounting Standards Advisory Board be established within the General Accounting Office and that it have the power to make, promulgate, amend, and rescind rules and regulations concerning UCAS. The Board could be chaired by the Comptroller General or his representative with one permanent member from the Department of Defense, designated by the Secretary thereof.

A second member should represent the procurement activities of the civil agencies. He should be designated by the President of the United States. Two members from outside the Federal Government would be appointed by the Comptroller General. Alternatively, one member might be appointed by the Comptroller General and one by the President of the United States. A

board so constituted would avoid the possible charge of undue influence of the Comptroller General in the UCAS decision-making process, it would be more representative of the parties at interest, yet would have a more viable environment in which to work than if it existed alone.²⁰

Wright spent much of the remainder of his appearance before the committee in answering questions from Proxmire--questions which appeared to raise doubts concerning the objectivity of Wright as a witness. Among other things Proxmire questioned statements in Wright's book and speeches and also pointed out that Wright was a consultant to 24 organizations--all of which did work for the Defense Department.

Testimony of Leonard M. Savoie

The first witness on the second day of the subcommittee hearings was Leonard M. Savoie, executive vice president of the American Institute of Certified Public Accountants (AICPA). Savoie was accompanied by Louis M. Kessler, president of the AICPA and LeRoy Layton, chairman of the AICPA Accounting Principles Board.

In his opening statement, Savoie said: "We see the concept of 'uniform cost-accounting standards' not as a new radical idea but as a continuation of one segment of a body of accounting practice that has been developing for a long time."²¹ Indicating that generally accepted cost accounting principles were already in existence, he suggested there was a need for continual refinement of such principles.

With regard to the GAO report, Savoie stated that several members of the AICPA questioned the representativeness of the sample of problem cases examined by the GAO and observed that

... the case examples presented were not a representative sample, and that the bad effects illustrated in these cases were caused not by the absence of standards but by the contractors' failure to adhere to cost-accounting standards already prescribed by

section XV of the Armed Services procurement regulations.²²

As indicated in the following quotation, Savoie also questioned some of the statements of the GAO report, pointed out areas in which it was weak, and disagreed with the GAO's idea of the function of cost accounting standards.

The documentation on cost-accounting standards to date does not give consideration to one of the most important aspects of cost assignment, or cost allocation, which is the interrelationship of total costs between products and activities. This applies to a mixture of commercial products, a mixture of governmental products, or a mixture of both.

The fundamental problem is proper and equitable allocation of costs according to their real causes and benefiting sources regardless of the cost type or origin.

Many of the major problems stated in the Comptroller General's report are not necessarily founded in the method or concepts of cost accounting. Often cost determination is but a symptom, whereas the real problem is insufficiently defined contracting procedures.

Two of the major problems (1) presenting costs in the same format as original contract estimates, and (2) changing cost assignments after a contract is in process, can be corrected without cost-accounting standards but with appropriate cost-accounting specifications expressed in the contract terms.

In defining standards, it may be appropriate for the framers to consider what should be covered in contract negotiations as well as how to account for the contract. Also, for practical reasons it may be prudent to concentrate initially on a specific industry or a limited number of industries because the standards may vary for different industries.²³

Savoie, while not agreeing with everything contained in the GAO report, did state that: "Overall, however, our general impression is that the Comptroller General's report of January 19, 1970, sets forth a reasonable conceptual basis on which cost-accounting standards may be developed."²⁴ He also suggested that the word "uniform" not be used, that the term "cost-accounting principles" be used instead of "cost-accounting standards," and that the standards be broad in terms of application.

Savoie summarized the major conclusions and recommendations of the AICPA as follows:

1. The "new machinery" preferably should call for an independent agency appointed by the President, consisting of a small number of members, such as five, all of whom should have competence in cost accounting.
2. At least two members should be drawn from outside the Federal Government and at least one of them should be from the field of public accounting.
3. The law should not exempt the agency from provisions of the Administrative Procedure Act.
4. The law should require the agency to consult with the accounting profession and industry representatives.²⁵

In responding to questions from Senators, Savoie stated that the AIPCA agreed that cost-accounting standards were both feasible and desirable and that with respect to economic feasibility " ... there are enough advantages even without any firm figures on costs involved or potential savings to warrant proceeding."²⁶

Testimony of Max Lehrer

Max Lehrer, vice president, defense finance, of the RCA Corp. represented the Electronic Industries Association (EIA) before the committee. In stating EIA's opposition to uniform cost-accounting standards, Lehrer said: "We believe this provision is unwarranted, unnecessary and unworkable. We believe adequate laws are already on the books to protect the Government's interest in procurement matters."²⁷ He argued that instead of reducing costs on Government contracts, there would be increased costs resulting from the development, implementation, and maintenance of the proposed standards. He also argued that there was no proper definition of the term "uniform cost-accounting standards."

Willing to concede that the development of the uniform

cost-accounting standards might be feasible, Lehrer claimed there was no evidence to demonstrate " ... that greater uniformity is necessary or desirable."²⁸ Giving examples using a diversity of companies, Lehrer suggested the need for a diversity of accounting practices.

Lehrer referred to various statements from the GAO report and claimed that " ... the GAO report contains a number of statements which clearly indicate that the uniform cost-accounting standards are not feasible."²⁹

Regarding the 120 cases used by the GAO to illustrate problem areas in defense contracting, Lehrer stated: "We believe that any thought that these cases represent excess charges to the Government involves a serious misinterpretation."³⁰ He maintained that all the facts were not presented in the GAO report and further stated:

It is particularly noteworthy that the majority of cases cited represented situations in which there was a difference of opinion between the contractor and the Government auditor. It is our understanding that in many cases, the contractor's position was upheld by either the contracting officer or the Board of Contract Appeals.³¹

Lehrer argued that the sample was not representative.

Near the end of his statement Lehrer observed that in the view of EIA the feasibility study resulted primarily from Admiral Rickover's claim of a \$2 billion a year savings on defense contracts. Lehrer claimed there was no evidence to support such an assertion and said that figures provided by the Renegotiation Board demonstrated that the idea of a \$2 billion saving was farfetched. At this point in Lehrer's testimony, Proxmire challenged Lehrer's interpretation of what the Renegotiation Board had said and after an exchange of words Lehrer said:

I would submit, Senator, that the degree of error in interpreting the Renegotiation Board's statistics is probably a lot narrower than the degree of error attributable to the sweeping statements of savings.³²

During the question and answer session Senator Cranston (D., California) requested that Senator Mondale (D., Minnesota) allow the companies alluded to in the GAO report to respond with a written statement to represent their point of view on the 120 cases referred to in the report. Mondale asked the GAO to supply the names of the companies but the Comptroller General refused to give the committee the names of the companies because of his pledge of confidentiality to industry.

Testimony of Karl G. Harr

President of and representing the Aerospace Industries Association of America, Inc. (AIA), Karl G. Harr began his testimony by saying: "That which is feasible is often neither necessary nor desirable."³³ Mr. Harr said that although the AIA did not agree that the GAO report established the feasibility of promulgating uniform cost-accounting standards, it would concede such feasibility. Arguing that cost-accounting principles (emphasis added) were both feasible and desirable, Harr suggested that such principles were already in existence and that none of the authorities behind such principles " ... seeks to affect the accounting system of a particular company or type of company."³⁴ Harr also suggested that conflicts might result between the proposed legislation, the Internal Revenue Code, and other related legislation. Furthermore, he said that AIA was fearful that one of two things might result from the proposed legislation: "Either we will have to substantially alter our accounting systems, or we will in effect have to establish dual systems--an economically absurd result."³⁵ Also, Harr stated that additional regulations were not needed because:

Not only is every American public corporation subject to controls of both its own and public auditors in terms of procedures and principles, but the defense segment of American industry is the most scrutinized, observed, controlled, and audited business in the history of the world.³⁶

In a dialogue between Proxmire and Harr the following exchange occurred:

Senator Proxmire. ... let me ask you if regulations were to restrict your freedom to choose the accounting principles most advantageous to you, would you not, as a businessman, have a duty to oppose them?

Mr. Harr. Would we have a duty to oppose them?

Senator Proxmire. Oppose them, certainly.

Mr. Harr. Well, in a sense, I suppose that every day with respect to every regulation, every determination or every law or ordinance that affects an industry, you have an obligation to promote and defend the interests of your company within the established system.³⁷

Testimony of Joseph G. Bacsik

Joseph G. Bacsik, chairman of the Procurement and Finance Council of AIA also represented AIA at the hearings. In his testimony he presented the following four reasons as to why AIA opposed uniform cost-accounting standards.

First there is neither a generally acceptable definition nor a common understanding of the meaning of the term "uniform cost-accounting standards," and feasibility has not been demonstrated.

Second, the need for imposing standards has not been established or justified.

Third, credible evidence has not been offered to demonstrate that the mandatory imposition of standards would accomplish anything beneficial.

Finally, as has been stated by Mr. Harr, there are potential legislative conflicts and unforeseen consequences inherent in the unlimited authority granted by the proposed legislation.³⁸

Testimony of James N. Donovan

In his testimony, James N. Donovan, representing WEMA, expressed concern about the impact of S. 3302 upon small manufacturers by questioning whether the benefits to be gained would outweigh the adverse effects of the proposal. He claimed that a careful study of the GAO report did not appear to support the conclusion that uniform accounting standards are feasible. Donovan stated that his group had devoted much attention to the statement that there would be no significant increase in costs arising from the legislation under review. Donovan seriously questioned the statement and pointed out that each cost-accounting system should be geared to operations and therefore would in many cases be unique. To make changes in the existing systems would result in additional cost that would have to be charged to both Government and nongovernment work. Donovan stated: "We therefore, would be forced to absorb costs for a function that did not add any value to our accounting information used to control our operations."³⁹

In concluding his statement, Donovan suggested that the proposal had not had an adequate review by subcontractors and smaller companies. Donovan also pointed out that no economic cost feasibility study had been done.

In the question and answer session Senator Cranston asked if Donovan felt S. 3302 or either of the GAO alternatives would have any effect on cost-overruns. Donovan replied:

I do not see where it could have any bearing whatsoever. Contract overruns occur because someone did not estimate the technical problems, for example, in developing a product, and it just took more engineering time than anybody thought it would in the beginning.

I think overruns are the result of operations rather than the result of poor accounting.⁴⁰

In the conclusion to his written statement, Donovan made the following remarks that concisely state some of his and previous witnesses' views.

Our members view the government as one of many customers and one who usually buys less than half of their output. It is simply not conceivable to them that it is proper for any one customer to tell them how to do their cost accounting or any other function which cuts across their whole business.

There are problems in cost accounting for negotiated contracts, as there are in most human affairs. The GAO has reported the recollections of auditors in some 120 cases. Although the circumstances surrounding each case are so abbreviated as to preclude judgment as to the validity of the alleged abuses, let's assume they are entirely valid. Our review indicates that most of them are violations of present ASPR principles or of the company's accounting rules. This is bad, should stop, and presumably has because of the auditors' work. These cases even without statistical evidence as to their frequency, provide sound arguments for good auditing and dealing with honest contractors. However, they provide no basis for the passage of S. 3302. Given the same type of administration and the same mix of dishonest contractors the abuses will be identical.

Little has been said about the cost of "new machinery" for UCAS. It is clear from the GAO Report that any standards-setting body has a complex and lengthy job requiring continuing research. We are not in a position to estimate the costs, but suggest that serious consideration of this cost factor proceed (sic) the establishment of any such new bureaucracy.

In view of the above it seems to us that the passage of S. 3302 is another case of overreaction. Some problems do exist and may be sufficiently prevalent to need significant corrective administrative actions. This can be accomplished by minor modifications to the Section XV Cost Principles and better administration by both the government and the contractors. It would seem reasonable, for example, that contractors with significant amounts of government business should routinely disclose their accounting principles and be required to adhere to them. However, nothing yet presented demonstrates the need for broad legislation of the type proposed.⁴¹

Testimony of Charles W. Stewart

As president and spokesman for the Machinery and Allied Products Institute (MAPI), Charles W. Stewart began his testimony by stating:

There has been reference to the fact that, at least theoretically, contract cost principles under section XV, are not applicable to fixed price contracts. I would say in this connection that as a practical matter that is not true in the great majority of cases.

It is true that the rules say they shall be a guide as to fixed price contracts but when auditors approach companies with respect to fixed-price contracts and suggest that ASPR be used, it is a bit like an IRS agent asking for an extension on an audit. He always gets it.⁴²

Stewart described the selection of the 120 cases used in the GAO report as follows: "I think the Comptroller General said to DCAA, 'Give me some horror cases.'"⁴³ Stewart said he felt there were aspects of the GAO sample that were suspect.

Responding to a question from Senator Cranston, Stewart lamented the shotgun and piecemeal approach with respect to Government procurement problems. He referred to the Holifield commission which had the responsibility of investigating all procurement issues, to an ongoing GAO profit study, and to an ongoing Pentagon study regarding the techniques of procurement and ASPR.⁴⁴ Stewart suggested that all of these issues, including the cost accounting standards question, be consolidated and handled by the Holifield commission.

Stewart, like some previous witnesses, expressed confusion as to the proper definition of cost-accounting standards. At one point in his testimony, he said the word "irresponsible" would be too strong to describe the action on the part of the Comptroller General of submitting a recommendation to the Government " ... without being able to say what it will cost or without being able to offer a cost-benefit analysis."⁴⁵

Instead of "irresponsible" Stewart chose the word "unwise."

In his prepared written statement, Stewart summarized MAPI's objections to uniform cost accounting standards as follows.

1. The term "uniform cost accounting standards" is nowhere understandably defined.
2. The need for such standards has not been adequately demonstrated.
3. The cost of promulgating such standards is unknown and this uncertainty is matched by the uncertainty of benefits to be derived from UCAS.
4. Adoption of UCAS is likely to influence if not control the normal development of commercial cost accounting practice and may well be the precursor of demands for uniform accounting standards or systems.
5. Commercially oriented companies which, although important to the national defense, have substantial commercial markets for their products will have another important reason to abandon the defense market.⁴⁶

Stewart also presented five recommendations for Congress in the event Congress decided to require the promulgation of uniform cost-accounting standards: (1) The standards should not be used to achieve uniformity in cost accounting systems, (2) No time limit should be placed on the development of standards, (3) The agency in charge of developing and applying UCAS should coordinate its program with interested professional organizations, defense and nondefense industry, and affected Governmental agencies, (4) Congress should obtain input from the Armed Services Committees before taking action, and (5) "... Congress might wish to consider directing the Comptroller General to draft uniform accounting standards but not to finally promulgate them until Congress has had the opportunity to review the final product."⁴⁷

Testimony of Vice Adm. H. G. Rickover

Rickover, the first witness on the third day of the hearings, began his testimony by repeating a charge he often made at other appearances before Congressional committees:

Under today's accounting rules, it is virtually impossible to tell how much defense equipment actually costs to manufacture or how much profit contractors make in producing it--unless the Government spends months reconstructing each supplier's books.⁴⁸

Saying that he was putting in perspective the arguments of some in industry who say that present regulations are sufficient, that defense profits are too low, and that the Renegotiation Board takes care of the rare instances in which the Government is overcharged, Rickover quoted the following statement from Peter Drucker, a management expert.

Far too few management scientists for instance realize that practically every single definition of accounting is based on assumptions of high metaphysical content--and that any accountant worth his salt, can convert any profit figure into a loss figure, or vice versa, if given control of the accounting definitions, all unquestionably, 'Within the limits of the proper accounting practice.'⁴⁹

Rickover then claimed that contractors control the accounting definitions used in determining what costs and profits are reported to interested Government agencies and to stockholders and also that the Renegotiation Board accepts at face value the reports given to it by industry.

Rickover referred to the 120 cases the GAO cited in its' report, and stated that the " ... 120 examples of contractors juggling costs to their advantage under existing flexible accounting practices ... are less than 1 percent of what actually goes on. You can find similar examples in any defense plant."⁵⁰ Rickover then cited four cases with which he was personally familiar.

Rickover strongly recommended that Congress require the Comptroller

General to develop and promulgate uniform cost accounting standards for defense contracts within 18 months as specified in S. 3302. Alluding to history, he said: "Since the time of Fabius the Cunctator, the strategy of defeat by delay has a long history of success. The only way to overcome this tactic is to establish a timetable for the work and hold to it rigidly."⁵¹ Later, the following exchange took place between Proxmire and Rickover.

Senator Proxmire. Admiral, the Comptroller General says he should not be forced to work on a timetable in setting up uniform cost accounting standards. He says that especially on overhead, depreciation, and so forth, he should not be limited at all.

What do you think of starting a project without having a completion date.

Admiral Rickover: Mr. Chairman, I only wish my work could be conducted that way. But I have timetables set for me for everything I do, and I require timetables of all my people. Otherwise you develop the "manana" habit. With 2,500 auditors in his own organization and 3,000 others in the Defense Department to call on, Mr. Chairman--if he does not want to do the job, why not turn it over to me? I will do it in 18 months.⁵² (emphasis added)

Rickover, in replying to the argument that uniform cost-accounting standards would hurt small businesses, claimed that the standards would primarily apply to the 100 largest defense contractors and to their subcontractors out of about 4 1/2 million firms in this country. Rickover stated that the standards would apply " ... at most to 1 or 2 percent of all the companies in the country."⁵³

At one point Proxmire asked Rickover if increased cost was not the real reason for industry opposition, then what was the reason? Rickover replied:

The opposition is like this: If I have a private monopoly and someone is trying to make it public, of course I am opposed to it

Look, industry is constantly claiming through their paid lobbyists that they do not make enough profit on defense business. If that is the case, what objection can they have to our finding out what profits they actually make? If their profits are really too low, this would help them get higher profits.⁵⁴

Rickover, in response to questions from Senator Proxmire and Senator Brooke (R., Massachusetts) regarding the effect of cost-accounting standards on cost overruns, stated that he thought cost-accounting standards would have " ... a salutary effect on cost overruns."⁵⁵ However, Rickover pointed out that overruns are not entirely due to accounting systems but also are affected by the state of the art, the state of technology, and by the kind of management in charge. "But the accounting system will show you very quickly where your faults are from the money standpoint and the management standpoint in the factory."⁵⁶ Indicating that cost overruns can always occur because of inflation and because much defense work is development work, Rickover still maintained that accounting standards would " ... define to those responsible in the Defense Department and in industry where their money is going and why."⁵⁷

Rickover, in answering a question from Proxmire, suggested that all other witnesses, other than the GAO, at the hearings had a special interest in the outcome of the hearings. He drew laughter with the following remark:

You ask those accountants and lobbyists who come here to testify whose flag they fly. They will display a dual flag, like the one of the Austro-Hungarian Empire.⁵⁸

Senator Brooke said he felt there was the possibility of serious abuses in defense contracting because of the relationships between some Department of Defense procurement officers and companies which employ

former Defense Department personnel. In a rather lengthy reply to Brooke's statement, Rickover indicated that he felt many problems in defense procurement could be traced to such relationships.

In his concluding remarks, Rickover stated that he felt if Congress pursued the matter of cost-accounting standards, the Government would save large sums of money and the country would get a more effective Defense establishment.

Testimony of J. S. Seidman

J. S. Seidman, as past president of the AICPA and at the time of the hearings a member of the Accounting Principles Board, began his testimony by saying that he was representing no one. Seidman pointed out that during World War II, while serving as a captain in the Navy, he was involved in the establishment of cost and audit principles in Navy procurement.

After briefly reviewing his testimony given at the 1968 Senate hearings, Seidman commented:

Sadly must I report that my testimony of 2 years ago still holds good today. Considering that \$40 billion a year of taxpayer money is riding on defense procurement, and that contract prices are pretty much geared to contractor costs and profits, there simply must be uniform cost accounting standards, if reported costs and profits are to be a useful guide. It is meaningless to compare costs among suppliers and have a handle on which contractor to select, unless they are all figuring costs in the same way, on the same standards.⁵⁹

Seidman said that he favored putting the Comptroller General in charge of the assignment of formulating the standards because of his experience, competence, and independence but that he thought the task would take more than 18 months. In responding to a question from Proxmire, Seidman said " ... in my opinion this is a more comprehensive,

and even continuing task than we think."⁶⁰

After hearing Seidman's entire statement, Senator Mondale made the following observation.

I think it is significant, at least at this point, that virtually every independent source of testimony from sophisticated sources, that is sources that understanding (sic) accounting, has favored some form of revision in this field.

There have been some differences about timing and the institutional nature of reform, but all of them have endorsed the concepts, No. 1, that there is--a very serious problem and, No. 2, that we ought to move toward some accounting reform to overcome it.

This has been true of the General Accounting Office, the American Institute for (sic) Certified Public Accountants-- I think you were once national president--and several other outside accounting sources, and from Admiral Rickover who speaks from the Government side, having had to deal with this procurement problem. Even the Defense Department has now made a statement, as well as the Budget Bureau--all generally in accord.

The only testimony we are receiving which argues that nothing should be done are from sources where it can be said, a financial stake exists in perpetuating present confusion.⁶¹

In responding to Mondale's observation, Seidman referred to human behavior and stated:

I think that if I were given a choice about having plenty of elbow-room about an accounting treatment, as against having one preset standard applicable to my facts, I think it would be perfectly natural and human for me to preserve flexibility for myself.⁶²

Seidman refused to put a dollar figure on the cost of developing and applying uniform cost accounting standards, but speculated that the cost of not doing so might be greater. Suggesting that such standards would facilitate reporting and auditing, provide for comparability and consistency, and eliminate much of the controversy surrounding defense contracting, he argued that since all parties should be playing by the same rules, " ... all of these things are bound to pay off."⁶³

In responding to a question from Senator Cranston, Seidman indicated that he felt uniform cost accounting standards would reduce disputes between contractors and the Government.

Testimony of Leonard Spacek

As chairman of Arthur Andersen & Co., Leonard Spacek spoke on behalf of his firm in his appearance before the committee. In his opening statement, Spacek said he was a director of the Logistics Management Institute (LMI) and a member of the Industry Advisory Council (IAC) of the Department of Defense.

While agreeing that cost-accounting standards are feasible, Spacek urged the Senate to approve Alternative No. 2 because he did not feel the Comptroller General should both develop and judge new and improved accounting and also because he felt the addition of this task to the Comptroller General's duties would have a dilutive effect upon his existing position.

Spacek suggested that the Board appointed by the President should appoint a commission to establish the cost standards that have been proposed after allowing for certain exchanges of ideas with interested parties. The commission and the Board would be permanent and all decisions of the Board would be final.

Spacek said that his interpretation of the objective of cost standards was to "' ... increase the flow of cost information with less effort and less expense to the Government.'"⁶⁴ He also volunteered the following criteria or principles to give direction to the proposed Board and a newly created commission.

1. Cost accounting standards represent definitions of cost accumulations and divisions of costs that will be brief and yet be sufficiently detailed to cover circumstances that no one can visualize at the time of drafting. Such cost definitions will be sufficient to give the cost information necessary to facilitate improved understanding among the Government departments, the suppliers, and Congress--a sorely needed objective today.
2. The cost definitions will be based upon fairness to the contractor and his stockholders, and the customer, which is the Government, as well as the public, who are users of commercial products that will be jointly produced.
3. The cost definitions will include all costs--expended or incurred, disbursed or imputed--including the costs of (a) inflation; (b) capital (c) changed work; and (d) Government--furnished property. Costs that are consequences of erroneous accounting or the result of imprudent expenditures that should not have been incurred, will be disallowed.
4. It is realized as a basic premise of the cost accounting standards that where Government and non-Government work is jointly performed common costs be allocated to both types of work in an equitable manner, and the benefits of reduced costs created by the combined volume also be properly recognized as affecting both Government and non-Government work.
5. The cost standards shall be applicable initially to all contractors having consolidated billings to the Government for products or services in the 2 fiscal years ending June 30, 1969, and 1970 of \$5 million or more; and the standards will apply to all contractors 5 years subsequent to the effective date of the standards.
6. It will be presumed that the Government and the contractors shall agree, at the time the services are requested or contracted for, to maintain a reasonably consistent subdivision of the work performed under the contract between proposals and actual costs. Consistency is important, but it is secondary to proper accounting.⁶⁵

In a letter to IAC members on January 21, 1970, (the letter is a part of the record of the hearings) Spacek stated:

"Cost Standards" will provide better communication which in turn will result in a better understanding of costs by DOD, Congress and suppliers. I believe it might well be that costs will increase, not decrease, but the communication benefits from "Cost Standards" will make the cost incurred better understood.⁶⁶

Spacek, in response to a question from Proxmire, indicated that he thought that if any additional cost and effort were required to adopt

uniform cost accounting standards, then such additional cost and effort was justified.

Testimony of I. Wayne Keller

Speaking on behalf of the National Association of Accountants (NAA), I. Wayne Keller, chairman, Committee on Management Accounting Practices of the NAA stated that while the NAA endorsed the intent of S. 3302, some members of the association expressed reservations as to whether " ... the new standards will in fact be an improvement over those that now exist."⁶⁷ Keller suggested three things to consider in developing standards: (1) Formulate general concepts upon which to develop specific rules, (2) Do not have an arbitrary deadline for doing the work, and (3) The work should be done by an organization of the Federal Government.

Proxmire asked Keller if he agreed with the claim that " ... cost accounting standards would be too costly and would produce no significant results."⁶⁸ Keller responded:

No, sir. I think that they would eliminate many areas of controversy which are time-consuming today. I certainly agree with Mr. Spacek's testimony that with these standards we have the opportunity to direct our efforts toward control of costs which will save money for the Government rather than in negotiation of prices and profits.⁶⁹

Testimony of Joseph A. Sciarrino

Joseph A. Sciarrino, technical director of the Financial Executives Institute (FEI), appeared before the committee on behalf of the members of the FEI. Sciarrino stated that the FEI was opposed to S. 3302 for two reasons:

First, we do not believe that uniform cost accounting standards are truly feasible in the sense contemplated by Public Law 90-370, the precursor to this bill, and the hearing which preceded its enactment.

... Second, we recognize that some problems do exist in applying sound cost principles to Government contracts. However, we do not believe that legislation is required to change existing cost accounting standards. These changes can and should be accomplished within the framework of existing procurement regulations under the administrative powers already delegated to the departments and executive agencies.⁷⁰

Sciarrino challenged Rickover's claim of a \$2 billion saving and also the claims concerning the 120 cases cited in the GAO study. He suggested that about 35 percent of the cases appeared to be pricing problems and stated that the balance " ... are either clear violations of existing regulations or represent differences of opinion between contractors and auditors."⁷¹

Sciarrino alluded to requirements of the IRS, DCAA, GAO, SEC, good industrial accounting practice, CPA's, and the Renegotiation Board to argue that existing controls and requirements were sufficient in the areas of consistency, disclosure, and record keeping. He stated that the FEI did not think the proposed legislation would eliminate the alleged abuses and excesses in defense procurement or improve communications between the Government, industry, and the general public.

The FEI expressed a preference for Alternative No. 2 but requested equal representation from industry, professional groups, and Government. In addition, they felt the independent Board should have 12 to 15 members.

Pages 565-573 of the committee hearings contain a copy of the "Financial Executives Institute Position Paper on Uniform Cost Accounting Standards." The paper is divided into the following sections: Actions Leading to the Feasibility Study, Evaluation of GAO's Positions,

Evaluation of the GAO Report, Support for UCAS Other Than GAO, FEI Position, and What Should Be Done. The following is a summary statement of the FEI position.

Uniform cost accounting standards are not feasible in the sense contemplated by Public Law 90-370 and the Hearings which preceded its enactment in 1968.

No new evidence has been provided through the feasibility study authorized by Public Law 90-370, or through other sources, to indicate that legislation is required to promulgate UCAS or to demonstrate the need for UCAS.

The uniform cost accounting standards that the GAO believes are feasible have not been identified or defined adequately to provide an understanding of what is contemplated. There is no substantiation that such standards and advance agreements, as recommended in the feasibility study, are economically feasible and practical, or that they would solve the accounting problems associated with applying sound cost principles to government contracts.

Legislation is not necessary and is not recommended as a solution to problems that have been identified. Desirable changes to present cost accounting standards can be accomplished within the framework of established procurement regulation and delegated administrative powers.

An Advisory Commission, to be established by the Secretary of Defense, is advocated as providing the best approach to equitable and practical solutions to existing accounting problems. This Commission, with equal representation from government, industry, and professional organizations, should examine the problems of, and relating to, defense cost accounting and proposal pricing and make recommendations for corrective action.⁷²

Testimony of Adm. Joseph M. Lyle

President, and on behalf, of the National Security Industrial Association, Joseph M. Lyle, the last witness, argued that new legislation was unnecessary in order to bring about necessary and feasible action concerning cost accounting standards because adequate standards already existed in section XV of ASPR.⁷³ Lyle said it was his personal opinion that Alternative No. 2 was the preferable legislative

action to take if any action were taken because he felt the audit and administrative functions should be separated.

In response to Lyle's comment about new legislation being unnecessary, Proxmire remarked:

You place a great deal of emphasis on the notion that this isn't necessary and the agency doesn't need it and present law is adequate. Yet I find the present agencies unanimously disagree with that view. The Bureau of the Budget, the Department of Defense, the space agencies, the AEC, all of them, as well as the other principal procurement agencies of the Government, agreed that this was good and necessary and desirable.

... Now I would think that you would expect a committee of Congress to pay a lot of attention to what the agencies say they need. It is perfectly clear, it seems to me, that these agencies don't have an axe to grind. On the other hand it would seem to me that contractors have a clear economic and financial and profit incentive for keeping as much flexibility as they can. It is a good way to maximize their profits, even though the effect is to increase costs to the Federal Government.⁷⁴

Written Statements of Other Parties

In addition to the 16 witnesses appearing before the committee, the records of the hearings contained written statements from the following associations: Associated General Contractors of America; Automobile Manufacturers Association, Inc.; National Association of Manufacturers; and Shipbuilders Council of America. Without exception, the four associations expressed opposition to the proposed legislation.

Summary

Sixteen witnesses appeared before the Senate Subcommittee on Production and Stabilization of the Committee on Banking and Currency. Eight witnesses supported and eight witnesses opposed the proposed cost accounting standards legislation. With one exception, representatives

of industry associations expressed opposition to the proposed legislation. Representatives of professional accounting associations, with the exception of the FEI representative, expressed varying degrees of support for the proposed legislation.

Senate Report 91-890

Introduction

On the basis of the Senate Subcommittee hearing, an executive session of the Subcommittee on Production and Stabilization, and an executive session of the full committee, the Senate Committee on Banking and Currency submitted "Report No. 91-890" to accompany S. 3302, as amended. The basic purpose of the legislation is stated as follows:

S. 3302 extends the Defense Production Act until June 30, 1972, and provides for the establishment of uniform cost accounting standards for certain defense contracts. The standards would be promulgated by a five member Cost-Accounting Standard Board appointed by the Comptroller General who would be designated as Chairman of the Board.

The Board is directed to promulgate cost accounting standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors.

The Board is also directed to issue regulations requiring defense contractors to disclose their own cost accounting practices in advance of a contract and to follow those practices consistently.

The legislation would be applicable on all negotiated defense prime contracts and subcontracts where the contractor's sales to the Government in the preceding fiscal year did not exceed \$25 million.⁷⁵

Apparently, someone made an error in the drafting or printing of the last quoted paragraph. On page five of "Senate Report 91-890" in a section by section analysis of S. 3302 the Senate report states:

Section 719 (h) (2).--This paragraph exempts defense contractors or subcontractors from the requirements of section 719 if their annual sales volume with the Government did not exceed \$25 million in the preceding fiscal year.⁷⁶

Also pages seven through nine of Senate "Report 91-890" make several references to the fact that the exemption applies to those contractors whose annual sales volume did not exceed \$25 million in the preceding fiscal year.

Need for Uniform Cost Accounting Standards

In presenting the "need for uniform cost accounting standards," the committee report briefly summarizes the arguments for such standards as given in the previous hearings. In addition, the report drew an analogy between cost overruns and the lack of uniform cost accounting standards by stating: "While the lack of cost accounting standards are not nearly as spectacular or dramatic as giant cost overruns on major weapons systems, their impact on the Federal taxpayer may be equally severe."⁷⁷ The report (exclusive of additional views) concludes the section on the "need for uniform cost accounting standards" with this statement:

The committee was impressed with the thorough report of the GAO and the many helpful comments received from the accounting profession. Uniform cost accounting standards will not solve all of our defense procurement problems. Nonetheless, their adoption will constitute a major and substantial reform.⁷⁸

Additional Views of Senators Brooke, Goodell, Mondale, Muskie, Proxmire, and Sparkman

Senators Brooke (R., Massachusetts), Goodell, (R., New York),
Mondale (D., Minnesota), Muskie (D., Maine), Proxmire (D., Wisconsin),

and Sparkman (D., Alabama) indicated that by an 8 to 6 vote of the full committee the bill was amended, and in their view weakened in terms of legislative effectiveness, to exempt all defense contractors whose " ... annual volume of business with the Government in the preceding fiscal year was less than \$25 million."⁷⁹ The Senators stated that in addition to their opposition, the GAO also opposed the amendment.

Stating that the " ... ostensible purpose of the amendment is to lighten the record keeping burden on 'small' defense contractors who presumably cannot afford to change their accounting procedures ..., "⁸⁰ the Senators suggested that the records of the hearings indicate there would be no substantial burden on any defense contractor, no matter what the size.

The Senators also expressed concern because the bill as amended would not require contractors " ... doing business of less than \$25 million a year to disclose their cost-accounting practices in advance of a contract or agree to follow those practices consistently."⁸¹ The Senators also pointed out that the amended bill would not require compliance with Federal Government accounting standards for a firm with a \$200 million contract if in the previous year the firm had only \$20 million of defense contracts.⁸² In addition, the Senators referred to a letter to Senator Proxmire from the Comptroller General to indicate that the amended bill was administratively unworkable.

In summarizing their views, the Senators said that the \$25 million exemption amendment is:

- (1) Totally unjustified since there are not substantial costs of implementation;
- (2) Needlessly broad since it also exempts contractors from disclosing their own practices and adhering to them;
- (3) Grossly excessive in its definition of small business;

- (4) Loosely drafted with the result of possibly exempting much larger defense contractors;
- (5) Administratively unworkable; and
- (6) Unnecessarily rigid in view of the flexible administrative authority given the Board to exempt small firms if warranted.⁸³

Additional Views of Senator Cranston

Senator Cranston (D., California) questioned whether the proposed legislation could satisfy the goals set forth by proponents of the bill and suggested that current ASPR was doing a sufficient job. Cranston doubted the claimed \$2 billion savings per year and also questioned having the Comptroller General serve in both a legislative and executive capacity. Cranston concluded the statement of his views by saying: "I am not convinced that the case has been adequately made that this legislation will prove to be an effective instrument to prevent the abuses which it is designed to correct."⁸⁴

Additional Views of Senator Bennett

Senator Bennett (R., Utah) suggested that: "Sufficient information was not included in the cases reported by the GAO for a determination to be made as to whether all cases were in violation."⁸⁵ Admitting that there probably was a need for improvements in present procedures, Bennett argued that this need did not warrant a misrepresentation of the facts.

Bennett challenged the committee report statement that the GAO report had been thorough. Bennett suggested that the GAO report was not thorough because only one side was presented in the 120 cases used to show improper practices by contractors.

Pointing out that the GAO report and professional groups appearing

before the Senate committee gave no dollar estimate of cost savings, Bennett indicated that the promulgation of accounting standards could result in increased costs. Bennett also raised questions regarding the control of the Board by the Comptroller General and the possible loss to Congress of an independent audit agency. Noting that the Comptroller General had recommended the establishment of an independent Board with members appointed by the President, Bennett said he offered an amendment in committee to set up such a Board, " ... but the amendment failed on a tie vote."⁸⁶ Bennett also referred to a copy of a letter from the Director of the Bureau of the Budget to the chairman of the House Committee on Banking and Currency in which the administration gave support to an independent Board appointed by the President.⁸⁷

Report 91-890 that accompanied S. 3302 was dated May 21, 1970. The Senate debate on S. 3302 did not occur until July 9, 1970. In June and July, 1970, the House Committee on Banking and Currency was also looking into the cost accounting standards issue.

Hearings Before the House Committee on
Banking and Currency

Introduction

The House Committee on Banking and Currency held hearings on June 16 through 20, June 22 and July 7, 1970, on H. R. 17880, a bill to amend the Defense Production Act of 1950, and for other purposes. Section 718 of H. R. 17880 contained the following features, among others.

- (a) The Comptroller General, as an agent of the Congress, shall promulgate cost-accounting standards designed to achieve uniformity and consistency in the cost-accounting practices followed by defense contractors and subcontractors under Federal contracts. Such promulgated standards shall be used by all relevant Federal agencies and by defense contractors and subcontractors in estimating, accumulating, and reporting costs in connection with the pricing, administration, and settlement of all negotiated prime contract and subcontract defense procurements with the United States Government.
- (b) The Comptroller General is authorized to make, promulgate, amend, and rescind rules and regulations for the implementation of cost-accounting standards promulgated under subsection (a). Such regulations shall require contractors and subcontractors to disclose in writing their cost-accounting practices including methods of distinguishing direct costs, and to agree to a contract price adjustment, with interest, for any increased costs incurred by the United States because of the contractor's failure to comply with duly promulgated cost-accounting standards or to follow consistently his disclosed cost-accounting practices in pricing contract proposals and in accumulating and reporting contract performance cost data.
- (c) The rules, regulations, cost-accounting standards, and modifications thereof promulgated hereunder shall have the full force and effect of law and shall become effective not less than thirty days after publication in the Federal Register.
- (d) For the purpose of determining whether the contractor or subcontractor has complied with duly promulgated cost-accounting standards and has followed consistently his disclosed cost-accounting practices, the contracting agency concerned and the Comptroller General or any representative of either shall have the right to examine and make copies of any documents, papers, or records of such contractor or subcontractor.
- (e) (1) There shall be established in the Office of the Comptroller General a Cost-Accounting Standards Advisory Board of no more than five members to be appointed by the Comptroller General. The Board shall be comprised of members both from the Federal Government (with the consent of the head of the agency concerned) and from outside the Federal Government. One member shall be selected by the Board as its Chairman. The Board shall advise the Comptroller General in the preparation of cost-accounting standards and of regulations implementing such standards. The Board shall also review promulgated standards and regulations and, as it deems appropriate, make recommendations to the Comptroller General with respect to such existing standards or regulations.
(2) The Comptroller General may appoint personnel from the Federal Government (with the consent of the head of the agency concerned) or from outside the Federal Government

to serve on advisory committees and task forces to advise the Comptroller General and the Board in carrying out their functions and responsibilities under this section. 88

Other matters unrelated to Sec. 718 of the bill were discussed during the seven days of the hearings. Sec. 718 of the bill was primarily discussed on June 19, 20, 22, and July 7.

Testimony of Elmer B. Staats and

Robert N. Anthony

Elmer B. Staats, Comptroller General of the United States and Robert N. Anthony, Ross Graham Walker professor of management control, Harvard Business School were the first two witnesses before the committee with regard to Sec. 718 of the bill. Although giving statements at separate times, they were both questioned at the same time by the committee.

Statement of Elmer B. Staats

Staats began his statement by outlining for the committee the potential benefits from cost-accounting standards and by briefly stating some of the conclusions contained in the GAO report. The Comptroller General pointed out that the GAO consulted widely in preparing the GAO report and he stated that:

All of the Federal agencies agree with the conclusion in our report as to the feasibility of applying cost standards for negotiated contracts. With one exception, all of the professional accounting organizations agree with our conclusions, although certain reservations and questions were raised with respect to the form of such standards and the manner in which they would be prepared and implemented.

However, the industrial organizations generally are opposed to the establishment of such standards and question the feasibility of applying them. 89

Staats told the committee that he believed the

... responsibility for promulgating cost-accounting standards should rest in the executive branch of the Government. I favor this course of action because I question whether the GAO should become so deeply involved in the administration of negotiated contracts. The responsibility for administering contracts, including promulgation and the day to day interpretation and administration of cost accounting seems to us basically an executive branch function.⁹⁰

Staats also said he felt the advisory board should be a permanent board and that the legislation should be permanent, rather than subject to expiration every two years. In his written statement, Staats discussed some of the arguments against cost-accounting standards.⁹¹

Statement of Robert N. Anthony

Robert N. Anthony stated that he was, or had been, an author of textbooks, a chairman or member of cost concepts committees of several accounting organizations, a consultant to industrial firms, and an Assistant Secretary of Defense, Comptroller. In endorsing Sec. 718 of the bill that would authorize the promulgation of cost accounting standards by the Comptroller General, Anthony said:

In correspondence and testimony, some persons appear to argue that cost standards are unnecessary. Such an argument makes no sense at all. There must be some way of arriving at a meeting of the minds between the Government and a contractor as to which of the hundreds of possible cost accounting practices are to be employed in measuring the cost incurred on a particular contract. Section XV of the Armed Services Procurement Regulations does this today.

... The standards in section XV of ASPR are inadequate. The report of the Comptroller General on this subject contains ample evidence of these inadequacies.⁹²

To illustrate the claimed inadequacies, Anthony cited the cost accounting systems of 12 large defense contractors he had recently studied and stated that "... no two of these 12 contractors used the same method of

allocating overhead costs to contracts. ... ASPR permits this diversity, and it results in wide differences in the reported costs of a contract."⁹³ He also expressed the opinion that the Pentagon had failed to make any improvements in the ASPR regulations and therefore there was a need for a fresh start outside of the Pentagon.

Anthony also argued against the Senate bill that would limit the application of cost accounting standards to relatively large contractors. In arguing that he saw no merit to the proposal, he further said: "Those who favor this limitation imply that cost accounting standards will create a paperwork burden, and that small contractors should be exempted from this burden."⁹⁴ Anthony said the argument was based on a misconception and that a good set of cost accounting standards would benefit many contractors.

Question and Answer Session With Staats and Anthony

Representative Patman (D., Texas) asked Anthony:

... is there general agreement with your statement that we should not exempt the smaller corporation or should we only deal with the big ones? Is the sentiment strongly either one way or the other in addition to your own?⁹⁵

Anthony replied that he had no way of knowing but suspected there was fairly general agreement with his stated position and also indicated the \$25 million exemption was of recent origin and to his knowledge had never been widely discussed. Patman responded: "Your position seems to be the correct one to me. I don't claim to know too much about this but it seems fair and reasonable and in the public interest to protect the public interest."⁹⁶

In reply to Anthony's response, Staats stated:

... in all of the many discussions we have had within Government and outside of the Government and in written and oral comments, to the best of my knowledge, this idea of an exemption did not arise. We are somewhat at a loss to know why the provision was written into the Senate bill.

We believe it would be very confusing.⁹⁷

Representative Mize (R., Kansas), as a former financial officer of a steel foundry, expressed reservations about imposing standard cost accounting standards on companies that do both commercial and Government work. Representative Sullivan (D., Missouri) raised further questions concerning the \$25 million exemption contained in the Senate version of the bill. In addition to answering her questions, Staats had a written statement entitled "Comments on Amendment of May 21, 1970, Proposed by Senate Banking and Currency Committee in S. 3302 Providing for a Limitation of \$25 Million on Applicability of Cost-Accounting Standards" inserted into the record. The conclusion of the statement says:

We suggest that the \$25,000,000 limitation of the application of cost-accounting standards to negotiated national defense procurements be omitted from the proposed legislation. During the task of developing and promulgating cost-accounting standards it will be necessary for the Cost-Accounting Standards Board to consider cost-accounting practices, methodology, and techniques considered appropriate for various types of contractor activities regardless of the size of contract or contractor's sales volume and to consider the probable cost of implementing such cost-accounting standards compared to the benefits to be derived therefrom. The matter of limiting the application of cost-accounting standards to negotiated national defense procurements, under these circumstances could appropriately be left to the ultimate administrative recommendation of the Comptroller General and the Cost-Accounting Standards Board based on their findings during the process of developing the cost-accounting standards. This would on the one hand permit for exemptions, and the other hand would allow for administrative discretion and thus avoid inflexibility.⁹⁸

Representative Moorhead (D., Pennsylvania) stated that representatives of companies which do a small amount of defense business had told him they would quit bidding on Government work if they were required to change their contracting methods. Both Staats and Anthony responded that the pending legislation would not prescribe uniform cost accounting systems but standards and they indicated there was no intent to overburden any company.

Representative Brown (R., Michigan) expressed concern about the proper place in Government for the Board--legislative or executive, and also made the following observation:

I have heard many complaints from constituent firms who say that it is a pain in the neck to do business with the Government because of the problems of not having the Government follow accepted contracting standards within the private sector, and so on. ... Uniformity might be a benefit to the contractor as well as the Government.⁹⁹

Representative Moorhead asked Staats if the newly created Holifield commission, an independent body established by Congress with members appointed by both the President and the Congress to examine the procurement process, would be an appropriate agency to develop " ... cost-accounting rules."¹⁰⁰ Staats pointed out that the commission was temporary, set up to run for 2 years, and had many problems. He added:

Being one of the 12 members designated by the law itself I am rather familiar with the scope of the intended study. I certainly feel that it would be relevant to that Commission. Whether the Commission could feasibly undertake this in the detail which has already been reviewed, speaking only as one member I would have some doubt. I am sure though it would be a matter for the Commission to determine, but that would be my own personal reaction.¹⁰¹ (emphasis added)

Anthony also responded to Moorhead's question as follows:

This effort will succeed only if the most able people in the accounting profession are willing to work on it. Of that Commission, there are perhaps two or three people that have any knowledge of accounting at all. And I think it is that simple fact that indicates that this Commission is not the place to get the job done.¹⁰²

Testimony of Admiral Rickover

The only witness to appear before the committee on Saturday, June 20, 1970, was Admiral Rickover, accompanied by M. C. Greer, associate director of the U. S. Atomic Energy Commission. Rickover set the stage for his comments in his opening remarks with this statement:

I am a naval officer and an engineer, not an accountant. I have intruded into accounting matters because the accountants have neglected their own responsibilities, to the detriment of mine. As long as they continue to neglect their responsibilities, I will continue to intrude. It is my duty to do so.¹⁰³
(emphasis added)

In addition to statements previously reviewed in earlier hearings, Rickover made additional remarks. First, Rickover described a problem he was having with one of the Nation's largest defense contractors regarding the procurement of equipment for a nuclear-powered submarine. Rickover maintained that the price quoted by the company was four times the price the Navy had paid for the equipment a few years earlier. Because the company said it did not keep actual cost records on previous orders, Rickover claimed it was impossible to determine the reason for the large price increase, and since the company was the only supplier of the equipment, the Navy would have to pay the high price.

Rickover observed that since the 1968 Congressional hearings concerning uniform cost accounting standards there had been a complete turnaround by the GAO, the Defense Department, and the professional

accountants regarding the feasibility and necessity of cost accounting standards. Rickover said: "Only defense industry groups, which have a vested interest in the present state of accounting anarchy, remain opposed."¹⁰⁴

Rickover argued that the GAO " ... is the logical choice to develop and promulgate uniform cost accounting standards."¹⁰⁵ Citing the GAO's charter and the Budget and Procedures Act of 1950 which states: "The Comptroller General ... shall prescribe the principles, standards, and related requirements for accounting to be observed by each executive agency ...,"¹⁰⁶ Rickover suggested that developing and promulgating uniform cost accounting standards was well within the scope of the Comptroller General's charter.

Disagreement Within the Committee

On Monday, June 22, 1970, after hearing from proponents of cost accounting standards, Representative Mize (R., Kansas) made the following remarks.

Thank you, Mr. Chairman.

We have three elements in this bill. No. 1 is the simple extension of the Defense Production Act of June 30, 1972.

The second element is this matter of establishing standard cost accounting procedures for defense contractors.

And the third element of course is this matter of granting standby wage and price controls.

Now, we have really not given those who oppose the second element, that is, the matter of establishing standard cost accounting procedures, a chance to be heard. Here it is 11:20, and this means that we have about 40 minutes left to hear from some opponents, I believe, which I think is most unjust.

This matter of establishing standard cost accounting procedures for defense contractors sounds like something that should be supported like motherhood and apple pie. But I feel this provision should be separated from the bill and more full and complete hearings held on it. The matter of price and wage controls was hashed over pretty thoroughly more last week.

... I am going to announce right now that when we go into executive session on this bill I am going to move that we strike everything from line 8, and have a simple extension of the Defense Production Act of June 7, 1962. And we can go into those matters more carefully later on.

... I would like to hear from some of those opponents on the matter of establishing the standard cost accounting procedures. But at the rate we are going we will never get to those. They are not going to have their day in court.¹⁰⁷ (emphasis added)

(Researcher's Note: It is of interest to observe Mize's use of the term "standard cost accounting procedures.") After Mize's remarks, the Chairman directed the hearings back to the subject of wage and price controls.

At a later point in the hearings, Representative Blackburn (R., Georgia) also had the following exchange of words with Chairman Patman.

The Chairman. Mr. Blackburn?

Mr. Blackburn. Thank you, Mr. Chairman.

I want to welcome the witness before the committee.

I want also to second the sentiment expressed by Mr. Mize, that is, I think it is grossly unfair the way this committee has a practice of scheduling full and complete testimony from those people who are sympathetic to the chairman's views, and those who oppose the chairman's views for some reason find themselves left to the last minute without an opportunity to express their opinions. And, Mr. Chairman, I would like to see us continue the hearings in order to permit full testimony from those who oppose this uniform accounting practice.

The Chairman. May I bring you up to date on it?

Mr. Blackburn. Yes, sir.

The Chairman. We are asking for permission now to convene the committee this afternoon and continue in session. If we are unable to do that we will go as long as we can after 12. And if we fail to get that we are going to have a meeting immediately after the House adjourns.

Mr. Blackburn. You mean to continue the hearing today?

The Chairman. Yes, sir. We have a number of witnesses here today.

Mr. Blackburn. I understand that we have a number of witnesses. And I think it is grossly unfair to have them come, many of them at their own expense, with the understanding that they are going to have a full chance to express themselves before this committee. And it is notable that this is not an unusual development.

The Chairman. We have heard every witness, or will hear every witness who has made a request. And if the gentleman has made a request we will hear his witnesses.

Mr. Blackburn. I will comment fully to see that they have their day in court.¹⁰⁸

After hearing the witnesses regarding wage and price controls, Chairman Patman made a short statement about how he conducted hearings and assured all parties that their views, whether oral or written, would be given consideration. Max Lehrer, representing EIA, expressed concern by stating:

At a time when our young are questioning our democratic procedures I think this committee would set a very unfortunate precedent in allowing the proponents of this legislation 2 full days to present their case and giving the opponents of permanent legislation only the opportunity to put their remarks in the record where they will be printed in 6-point type that almost defies reading.¹⁰⁹

After a brief exchange of words with Lehrer, Patman called the next witness. The witnesses were given ten minutes to use in any way they wanted. Some questions were submitted by some committeemen in writing and later answered by the witnesses in written form. Most of the testimony was similar to that given in earlier hearings and much of it will not be repeated. The following testimonies consists primarily of new arguments given by opponents to the proposed legislation.

Testimony of Joseph M. Lyle

Joseph M. Lyle, representing the National Security Industrial Association, opposed the proposed legislation on the grounds that existing agencies and laws were sufficient, the alleged procurement problems were exaggerated and distorted, and " ... that GAO auditors have not had any significant difficulty in determining what contractors' actual costs were."¹¹⁰

Lyle further pointed out that effective July 1, 1970, as a result of Defense Procurement circular No. 79, the use of section XV of ASPR would be mandatory in the " ... pricing of all contracts and adjustments negotiated on the basis of costs,"¹¹¹ and therefore the necessity for legislation on this subject was eliminated. Even though considering the legislation unnecessary, Lyle pointed out some points in H. R. 17880 to consider: (1) The term "cost accounting standards" is undefined, (2) The GAO should not promulgate the standards, (3) The proposed legislation should not apply to small businesses as defined by the Small Business Act, (4) The bill contains no appeal process, (5) Economic feasibility of a standard has been ignored, and (6) The right to examine documents should be limited.¹¹²

Testimony of Karl G. Harr

With very minor revisions, the testimony of Harr was the same as that given at the 1970 Senate hearings.

Testimony of Charles W. Stewart

Charles W. Stewart, representing MAPI, began his testimony by suggesting that " ... there has been an absence of some elements of

due process in terms of bringing all of the information from the interested parties before a forum where the full complexities of this subject could be adequately discussed."¹¹³ Stewart stated that no one, including the Comptroller General and the proponents of uniform cost accounting standards, understood what was meant by the term "uniform cost accounting standards."

Stewart suggested that the proposed standards and their advocacy needed to be put in the proper perspective and remarked: "I would suggest first that they have been caught up in the swirl of the unpopularity of the Vietnam war, which has colored certain attitudes of Congress."¹¹⁴ He also said the GAO was incapable or refused to submit to Congress a cost-benefit study relating to the promulgation of cost accounting standards.

In his written statement, Stewart questioned the constitutionality of the Comptroller General's being responsible for promulgating standards, and he also summarized the position of MAPI to the proposed cost accounting standards.

1. The term "cost-accounting standards" is nowhere understandably defined.
2. The need for such standards has not been adequately demonstrated.
3. The cost of promulgating such standards is unknown and this uncertainty is matched by the uncertainty of benefits to be derived from their promulgation.
4. Commercially oriented companies which, although important to the national defense, have substantial commercial markets for their products will have another important reason to abandon the defense market.¹¹⁵

In a list of written recommendations, the same list as contained in the Senate hearings record except for the following, MAPI indicated it strongly preferred S. 3302 to H. R. 17880 because: (1) S. 3302 called for an independent Board, (2) S. 3302 contained an exemption requirement, (3) S. 3302 contained a more reasonable audit requirement, and (4) S. 3302 contained a requirement of public notice in the "Federal Register" of proposed standards and the opportunity for comment by interested parties before standards and regulations were published in final form.¹¹⁶

Another Disagreement Within the Committee

At the conclusion of Stewart's statement, Representative Blackburn asked the chairman if the committee members had the right to question the witnesses as they had the pro-bill witnesses. Chairman Patman indicated the witnesses would be given 10 minutes to present their views and at that time there would be no question and answer session. Blackburn suggested that on such far-reaching legislation the representatives of a major segment of the economy should not be deprived of adequate time and opportunity to express themselves and further suggested that action on uniform cost accounting standards be postponed. Stewart then said that industry had not received adequate notice of the hearings. The disagreement continued for a short time and after Stewart said that he had filed a statement on several occasions to refute the Comptroller General's report as being inconclusive and short of proof Patman said: "All right, then you have had your day in court." Blackburn responded: "I doubt, (sic) it. Half the jury is not here, Mr. Chairman. I would hate to try a case with one-third of the jury in

the room."¹¹⁷ The chairman then called the next witness.

Testimony of Joseph A. Sciarrino

Joseph A. Sciarrino, speaking on behalf of the FEI, expressed opposition to the proposed legislation on cost accounting standards on the grounds that it was unnecessary. Sciarrino stated that the FEI did think that cost accounting principles should be subject to a continuous examination and that instead of promulgating standards, that had eluded description, the accounting profession should conduct a study with the following objectives:

1. A codification of cost accounting principles which already exist.
2. An examination and evaluation of the degree of latitude and flexibility which exists in the interpretation and use of these principles.
3. A diagnosis of the problems in the use of cost accounting principles by defense contractors and the contracting agencies as suggested by the problem areas identified in the GAO report.
4. Recommendations for corrective measures to eliminate the problems diagnosed.¹¹⁸

If Congress felt legislation was necessary, the FEI preferred a nine-man independent board with equal representation from industry, the accounting profession, and the Government. Sciarrino stated: "Let the Presidential board determine whether in fact a need exists for standards and shape its actions accordingly."¹¹⁹

Testimony of John W. Gilpin

John W. Gilpin, director of governmental affairs of Varian Associates, spoke on behalf of WEMA and generally gave the same testimony that was given by James N. Donovan when he represented WEMA before the

1970 Senate subcommittee. Gilpin's testimony centered around the claim by proponents of cost accounting standards that " ... there should be no significant increase in costs if UCAS were to become law."¹²⁰ In disagreeing with this statement, Gilpin argued that the costs of implementing and maintaining standards would be costly, especially to small firms.

Testimony of Max Lehrer

Max Lehrer, representing EIA, began his statement in much the same way as he did his Senate subcommittee statement by saying the proposed legislation was " ... unwarranted, unnecessary, and unworkable."¹²¹

Lehrer further said:

It is clear from the record that this proposed legislation, and the feasibility study that preceded it, resulted primarily from claims that uniform cost accounting standards would result in major savings in defense procurement.¹²²

Lehrer suggested that the claim of cost savings stemmed from Rickover's earlier statement and that proponents of the legislation were accepting the \$2 billion figure at face value. Also, the \$2 billion figure was being used to convince unwary bystanders of the desirability of legislation. Lehrer claimed that the enactment of H. R. 17880 would increase the costs of Government procurement and he suggested the need for a cost-benefit study.

In addition to arguing that the legislation was unnecessary, Lehrer pointed out what he considered to be inequities of H. R. 17880. First he questioned whether or not the Comptroller General should both promulgate and enforce the standards and he pointed out that H. R. 17880 contained no provision for an appeal process. Second, there was no provision in H. R. 17880 for seeking the views of affected parties

before the promulgation of standards. Third, the time period between publication in the "Federal Register" and the effective date of a new standard was too short. Fourth, H. R. 17880 was too broad regarding the degree of access to industries records. Finally, H. R. 17880 contained no exemption related to size of business or procurement programs.¹²³

Lehrer concluded his statement by suggesting that action on cost accounting standards should be postponed until the Commission on Government Procurement (the Holifield Commission) had done its job. Specifically Lehrer said:

Any problems of cost accounting are secondary to and dependent upon, fundamental decisions concerning the procurement process itself. It would seem prudent to give the Commission an opportunity to do the job for which it was created, including consideration of the cost accounting aspects of Government procurement, rather than preempt it by hasty and ill-considered legislation such as section 718 of H. R. 17880. This is a vital matter, Mr. Chairman, and should not be treated in a kangaroo-court fashion.¹²⁴

A Third Disagreement Within the Committee

At the conclusion of Lehrer's statement, Chairman Patman indicated that there was no more time, whereupon the following exchange took place.

The Chairman. We do not really have the time. You do not know exactly what we are up against, I am afraid. Now, we have another committee meeting tomorrow, and if the committee decides to have further hearings on this, I would be delighted to have them. But we have some other commitments, and have other things, and we have to arrange for the time to do it.

Mr. Lehrer. Mr. Chairman, you had the foresight to introduce House Resolution 1259 which proposed a 30-day extension of the Defense Production Act. I would respectfully suggest that the committee proceed on that and defer action on uniform cost accounting standards until the full facts can be considered, rather than saddle all American industry, big and small, with legislation based on very inadequate and incomplete information.

The Chairman. We have some mighty fine public relations people in this country, and I believe you are one, too. And it is not necessary that you have so much time--of course it is better for you, and I would like to see you have it.

Did you have time before the Senate committee?

Mr. Lehrer. All witnesses were given approximately equal time before the Senate committee.

The Chairman. What was equal time?

Mr. Lehrer. Whatever was considered appropriate for the matter.

The Chairman. Well, you do not say how much. But anyway, you were heard there, and you are heard here.

Now, a good public relations man--I know there are lots of them that are really good, in fact I have never known one that was not good--he always earns his money. But he does not necessarily depend upon what he actually says before a congressional committee. That is a small part of it. He takes it up with the Members of Congress, and he takes it up particularly with the Members of Congress having industries in the district of the Representative.

How many industries do you represent?

Mr. Lehrer. Mr. Chairman, we represent some 300 manufacturers of all types of equipment.

But if I may speak bluntly, I think it is shocking to have an intimation that legislation of such far-reaching character is something that should be handled in the court of public relations. I spent 2 years as a staff member of a Senate committee, and we prided ourselves that any hearing was a full hearing.

The Chairman. You indicate that you depend upon what you do before a congressional committee. I have been around here a long time, and I would not consider that the thing to do. If I were a public relations man, and not a Member of Congress, I would not mind just having limited time before a committee, I would not depend upon what I said before the committee.

That does not count so much. But whenever you take this testimony and you acquaint the Members of Congress with it, and say, get a hold of these Congressmen, 36 members of the Banking and Currency, here is what was said, it is documented and approved, and get them to vote that way. And it is the same way in the U.S. Senate.

Mr. Lehrer. Mr. Chairman, there are thousands of small businesses affected--

The Chairman. Just a minute. Give me a chance to talk. You had time to talk.

You see, these industries that you represent are all over the Nation. And a lot of these Members of Congress live in their districts. They have tremendous influence with them. And therefore you can get in touch with them. There are a lot of things you can do without just appearing before the committee. And when you do appear the fact that you get your message across is the important thing. Certainly I do not want to deny you the privilege. But sometimes you get in a bind and cannot do it. If the committee were to vote tomorrow to have more hearings and give me the time to do it--we have several other bills to

consider, of course--and give me the time to do it I would be delighted to do it, because I have always wanted witnesses to have plenty of time where it is possible, and each member of this committee to have an opportunity to interrogate the witnesses.

Now, that did not apply until I became chairman of this committee. For a long period of time we would come in and only just two or three of the senior members would get to ask questions and the others would not get to ask questions at all. But I adopted the rule of going around at least 5 minutes, and when I became chairman of the Joint Economic Committee, which is half Senators and half Representatives, I could not get the 5-minute rule, but I had the 10-minute rule. And the Senators at first would not pay any attention to it, we just had to hammer them down. They did not like to do it because they were not used to being restricted as to time.

So I am one that has been in favor of all this all the time. And I am certainly not entitled to any abuse for it.

Mr. Lehrer. Mr. Chairman, I am heartened by the statement that you wish to be fair, because I think that is in our common interest.

Mr. Stewart made the observation that the GAO report--and this is a copy of it--is replete with inconsistencies and inadequacies.

The Chairman. Very well. Have you pointed them out?

Mr. Lehrer. May I continue, please.

This is also a remarkably complex subject. It is not the kind of thing that can be handled lightly. Yet if the permanent legislation is enacted on the basis of some gross oversimplifications we will live with the result for a long time.

Therefore I again respectfully suggest that the way for you to enable us to get the facts across and to have fair and full consideration is not to rush through with legislation. This is like having an execution and then asking for a fair trial afterward, and being sorry that there may have been a miscarriage of justice.

The Chairman. I believe you knew in March we were going to have these hearings, because June 30 the law expires. And I think you have a challenge there to get around and see Members of Congress who vote and let them know your testimony, let your industries know about it, let them contact the Members of the Congress, both House and Senate.

Mr. Blackburn. Mr. Chairman, I would like to ask a question.

The Chairman. Just one moment.

This was put out in January 1970. You have had a long time to get up an answer, a long time.

Mr. Lehrer. That is right, Mr. Chairman. And we have very great difficulty in getting to you or any other member of the committee to discuss it.

The Chairman. You have got a job to do it yourself.

Mr. Lehrer. Of course, and we would like the opportunity to do it and not be preempted.

Mr. Blackburn. Mr. Chairman, I would like to ask, how did this witness know that the wage and price controls and uniform accounting were going to be included in this bill which is expiring in June? This bill was not introduced until June 2, and you announced the hearings on June 15 for a 2-week period.

Now, to me there is a real gross inequity when we sit here for one full hearing and allow Mr. John Kenneth Galbraith whose economic theories have been repudiated by Democrats and Republicans alike for 25 years, and yet we have to sit here and listen to his economic nonsense, whereas these gentlemen represent millions of jobs, millions in industries, and in fact the defense of this country could depend on the job that the defense industry does. And we are giving them 10 minutes apiece to talk about a subject that is as involved as accounting which I studied in law school, and I know it is a very complicated subject matter.

Mr. Lehrer. As a matter of fact, Mr. Blackburn, it was not easy for us to find out when the committee was holding the hearing.

The Chairman. The gentleman is not entirely on solid ground in what he said, that this gentleman did not know that the cost accounting issue was coming up. It was in our bill 3 years ago.

Mr. Blackburn. Am I to understand that when anything which has been professed in the last 200 years of this country is ready to come up we should know about it?

The Chairman. It has been debated 2 years ago, and has been debated in the Senate.

Mr. Blackburn. The fact that something was proposed 2 years or 10 years ago does not mean that it is likely to come up in the morning.

The Chairman. If I represented industry like he does I would be on my toes.

Mr. Lehrer. Mr. Chairman, unfortunately the industry that will suffer most if this bill is railroaded through is small business, which has not had an opportunity to be heard.

The Chairman. You say that some small businesses what to be heard that have not been heard. Name me one.

Mr. Lehrer. I did not say they have asked to be heard, I said they are the ones that will be most affected. On the 5th of June we requested this committee to appear only because we knew something had to be done. And finally on the 15th of June your committee--

The Chairman. I will admit that we have something to do, and we want to be fair with you. But you have something to do. The challenge is on you.

Mr. Lehrer. I agree, Mr. Chairman, I would merely reiterate my plea, Mr. Chairman, I would like you to give us an opportunity to consider this fairly and on the merits. I submit that that has not been done.

The Chairman. Well, 2 years ago you knew that it was coming up again this year, it would be up again. You expected it, didn't you?

Mr. Lehrer. Eighteen months ago you asked the Comptroller General to make a study. For 15 months of that 18 months we were engaged with the Comptroller General's staff. And the draft report that came out was one of the most monstrous--and I use the word advisely--pieces of literature ever perpetrated.

The Comptroller General personally got in the act--and I pay tribute to the General--he did make some very significant changes. However, we were in a tremendous quandry, and still are.

Just what do we mean by cost accounting standards, to what degree will these become a straitjacket of practices? The Comptroller General speaks in reasonable terms. The senior staff members of GAO do not. And the Comptroller himself has pleaded that he not be saddled with the responsibility which the committee bill would propose to do.

The Chairman. You have a challenge yourself, and if I were you--I know you will get busy, because I am sure--

Mr. Lehrer. If the committee is going to mark up in the next day or two it is hard to see how the challenge can be met.

The Chairman. But you have known about it for 2 years.

Mr. Blackburn. Can we get the Comptroller General to testify, Mr. Chairman, as to whether or not he wants to administer this bill?

The Chairman. If the Congressman stayed around all the time he would know that the Comptroller General did testify.

Mr. Moore. And it is noteworthy, Mr. Chairman, that the Comptroller General said he would like not to have to administer this.

The Chairman. That is what the committee would like to decide. Anything else from the members of the committee?

Mr. Mize. I would just like to point out that you do have a few friends in court, and we are going to work like the dickens for you.

Mr. Lehrer. I thank you and the American people thank you.

The Chairman. If you want to get together and vote for future time we would be glad to hear you on that.

Mr. Lehrer. Is it my understanding that the entire statement will be printed in large type?

The Chairman. Yes, sir. And if you want to add to it, add to it.

Questioning of Witnesses

On Tuesday, July 7, 1970, the House Committee on Banking and Currency met to allow the witnesses of June 22 to answer questions from committee members. In Chairman Patman's opening statement he stated that a one month extension of the Defense Production Act had been secured and it would now expire at the end of July and that he

would like to see prompt action on the bill. Regarding the hearing of July 7, Patman said:

... I did want to give these gentlemen an opportunity to answer any questions that might be on the members' minds before final action on this bill. Therefore, we are holding this session this morning.¹²⁶

The men present at the hearing who were primarily concerned with the provision of the bill relating to uniform cost accounting standards were: Karl G. Harr representing AIA; Charles W. Steward representing MAPI; Max Lehrer representing EIA; J. M. Lyle representing NSIA and accompanied by Cecil L. Covington, manager for government relations, equipment group, Texas Instruments, Corp. and chairman of the task force on cost accounting standards of the NSIA; and W. Stewart Hotchkiss representing FEI.

Each representative was allowed five minutes to ask questions and get answers and this section of the study presents a sampling of those questions and answers. Representatives Moorhead and Brown questioned the witnesses concerning the best type of exemption to have in the pending legislation. Lehrer, Stewart, and Covington agreed that they were opposed to any legislation. Lehrer and Stewart also agreed that the \$25 million exemption contained in S. 3302 was a sensible approach while Covington stated that in addition he would like to see an exemption for firms which did less than a certain percent of their work with the Federal Government.

Representative Johnson (R., Pennsylvania) asked if it were not possible for the Government to get the information it needed under existing conditions. Lehrer said in response: " ... the government does have, in our view, all the powers that it now needs."¹²⁷ Harr

explained that large companies have sophisticated surveillance and control features that seem to " ... vitiate the argument for the uniform accounting system."¹²⁸ (emphasis added)

At one point Stewart said he wanted to return to the central points of consideration-- " ... what are we considering in the first place?"¹²⁹

Stewart then said: "We don't know and nobody knows. When you get through reading the Comptroller General's Report you don't know. ... What are uniform cost standards?"¹³⁰ Following a few other remarks by Stewart, Representative Mize said:

Mr. Stewart, proceed. I am with you a hundred percent. I think imposing uniform cost accounting standards in this bill is absolutely ludicrous.¹³¹

Shortly thereafter Stewart labeled as verging on blackmail the provision in the House bill requiring the payment of interest on any refund to the Government as a result of a contractor deviating from uniform accounting standards.

Representative Hanna (D., California) raised the question of the intended application of the work "uniform" in the proposed legislation and indicated that he thought the idea of a uniform system for everybody was ridiculous. Representative Blackburn raised the following question:

I think a lot of pressure for this type legislation has arisen because of the cost overruns on certain very notable and famous or infamout contracts engineered by Mr. McNamara--that is, his C-5A contract, a very good airplane but a bad contract, the F-111 and the main battle tank and several other devices that he envisioned. Does the way you keep books determine the cost of these systems. I mean could you change your bookkeeping and reduce the cost of the C-5A by 25 percent?

Mr. Harr. It would have no effect on it, substantial effect on it at all.

Mr. Blackburn. And so the talk about cost overruns would not be affected by the way the books are being kept, would they?

Mr. Harr. That is precisely correct.¹³²

Representative Gettys (D., South Carolina) asked if there was in the interest of the Government, industry, or the public any need for a change in the " ... present cost accounting procedures in this field."¹³³

(emphasis added) When told there was no demonstrated need, Gettys asked for the origin of the standards concept contained in the bill.

Before getting an answer Gettys stated:

I get the impression that it is a direct move to put a strait-jacket on private industry, to eliminate flexibility, to eliminate the innovation of private industry, to eliminate the traditional concept of competition and improvement within industry (sic) Does this strike a note--is my impression which I am beginning to form--¹³⁴

At that point Lehrer interrupted and agreed. Lehrer then indicated that Rickover was responsible for the concept contained in the proposal and after challenging some of Rickover's ideas concluded with this remark: " ... I would like to record to be clear that I am not here to attack Admiral Rickover. I have profound admiration for his genius as a technical innovator, but as an accountant, no."¹³⁵

Representative Brown raised the issue of the Holifield Commission on Government Procurement Practices to which Lehrer and Harr suggested that a proper approach would be to make the question of cost accounting standards a part of the consideration of the Holifield Commission.

Representative Rees (D., California) began a statement, rather than asking questions, with the following: "In all our hearings I have never heard so many leading questions in one session."¹³⁶ Rees then summarized the Senate bill as approved by the Senate committee and also challenged some of the earlier remarks made by the witnesses.

Representative Heckler (R., Massachusetts) and Lehrer discussed the role of the GAO under the Senate version of the proposed legislation and Lehrer expressed reservations about only having an appeal to what he considered the prosecuting attorney and the judge--the GAO.

To this Representative Heckler responded:

May I suggest that the public is a far more unsympathetic critic of the defense industry than the GAO and that the issue here is the public versus the defense industry. And that the reason that the distinguished admiral's name is heard so much is that so many millions of Americans happen to feel that he is probably on the right track and that our function as members of this committee, as a committee itself, is not to persecute an industry nor is it to ignore a public outcry or a public recognition of a public problem.¹³⁷

Representative Galifianakis (D., North Carolina) suggested that it was not the statement by Rickover of a possible \$2 billion savings that was so impressive to members of the committee but his statement regarding the inability of contractors to tell how they determined their costs.

In responding to questions from Representative Bevill (D., Alabama), Harr and Lehrer indicated that the proposed legislation might lead to a single uniform cost accounting system throughout the Department of Defense.

Representative St Germain (D., Rhode Island) stated that he had been present at all the hearings that led to the creation of the Holifield Commission on Government Procurement and that he was a member of the Subcommittee on Military Operations of the Government Operations Committee. On that basis St Germain stated:

... I reject the contention of all the witnesses this morning that we should wait for the results of what is done by that Commission, because very frankly, there wasn't that much time spent in those hearings with reference to uniform cost accounting.

We were talking about contracting.¹³⁸

In his questioning Representative Ninish (D., New Jersey) alluded to an aspect of the military-industrial complex when he referred to people who formerly worked for the Defense Department who are now representing industry. Ninish questioned such an arrangement.

Written Statements by Interested Parties

Attached as an appendix to the record were several statements about the cost accounting standards proposal. In a letter to Chairman Patman, Secretary of Commerce Maurice Stans, while agreeing that the feasibility of uniform cost accounting standards had been established, presented arguments for establishing an independent Board within the executive branch of Government. The appendix included a written statement from the following organizations which opposed, for various reasons, the proposed legislation: The Automobile Manufacturers Association, Inc.; Electronic Industries Association; The Strategic Industries Association; The Barden Corp.; Humble Oil & Refining Co.; Daniel, Mann, Johnson & Mendenhall; A. O. Smith Corp.; Woodward Governor Co.; Xerox Corp.; Tektronix, Inc.; Armco Steel Corp.; International Electronic Research Corp.; and The Proprietary Association. Also included in the appendix were written statements that contained some support for the cost accounting standards from the following organizations: the American Institute of Certified Public Accountants, the National Association of Accountants, and the Federal Government Accounting Association.

Summary

Representatives of industry associations testifying at the House hearings, without exception, opposed the proposed cost accounting

standards legislation. In addition to presenting arguments against the proposed legislation, some of the representatives of industry associations offered suggestions regarding the form of legislation they favored--if there was to be legislation.

A highlight of the hearings was the disagreements that arose between Chairman Patman, committee members and some witnesses on whether the witnesses who opposed the proposed legislation would be allowed sufficient time to present their position. Eventually, the opponents were given some time to respond to questions from committee members. The House Committee hearings ended on July 7, 1970, and the next action on the cost accounting standards legislation was taken by the Senate.

Senate Action on S. 3302

Introduction

On July 9, 1970, members of the Senate engaged in debate regarding various aspects of the amendment to S. 3302 requiring uniform cost accounting standards. Senator Mondale introduced and summarized the basic features of the proposed legislation. In his remarks he presented arguments that the legislation was needed and that it would not be burdensome on industry. Senator Proxmire then explained in some detail that the standards were needed because: there is no competition on 89 percent of military procurement, the existing laws are inadequate, there is great flexibility in the determination of costs of defense contracts, there is the potential for saving substantial amounts of taxpayer's money, and the GAO determined the standards were feasible and needed.¹³⁹

Bennett Amendment

Following Proxmire's statement, Senator Bennett offered an amendment to the bill which would require that the Board be established as an independent agency in the executive branch of the Government. The Comptroller General would serve as chairman with four other members to be appointed by the President, subject to confirmation by the Senate. Two members would come from the accounting profession, one member from industry, and one member from the Federal Government. Bennett discussed at some length the following reasons for his amendment: (1) Most of the witnesses, including the Comptroller General, preferred that the Board members be appointed by the President, (2) Half of the committee favored the approach contained in the amendment, (3) The present bill's proposal would undermine the independence of the GAO, (4) There was a constitutional question of the separation of powers, and (5) The GAO had failed to tell the full story on the 120 cases referred to in the feasibility study and this reflected adversely on the attitude of the GAO and implied the GAO might not be neutral in its duties.¹⁴⁰ Senator Cranston, citing his previous experience as comptroller of the State of California, supported the Bennett amendment on the basis that it would be necessary in order to " ... have the Comptroller General of the United States a totally independent man."¹⁴¹

Senator Proxmire discussed at some length the following arguments against the Bennett amendment: (1) The Bennett amendment would weaken the administration of the bill, (2) Executive regulatory agencies tend to " ... become the captives of those whom they ostensibly regulate,"¹⁴² (3) The executive branch had been inactive in this area of concern for

some time and there was no evidence to suggest a change in attitude, (4) The Comptroller General is appointed to a 15 year term and therefore completely independent, and (5) The proposed role of the Comptroller General, under the committee bill was compatible with the description of the Comptroller General's duties specified in the Budget and Accounting Procedures Act of 1950.¹⁴³

In arguing for the Board as described in the committee bill, Proxmire said:

If anyone is immune to the blandishments of the military-industrial complex, it is the Comptroller General. It comes as no great surprise, therefore, to see defense industry lobbyists urging the establishment of a Presidential board.¹⁴⁴

Senator Brooke suggested that it might be better if the Comptroller General appointed the other members of the Board subject to Senate approval. Proxmire suggested that there was considerable question as to the constitutionality of such a proposal and cited seven court cases to support his position.

Senator Mondale also expressed opposition to the Bennett amendment for many of the reasons given by Proxmire. The Bennett amendment was rejected 36-44 with the Republicans voting 30-5 and the Democrats 6-39.

Proxmire Amendment

Senator Proxmire introduced an amendment to eliminate the \$25 million exemption contained in the committee bill and then discussed in some detail the arguments previously stated in the committee report. (Those arguments are given on pages 217 and 218 of this study.) Senator Cranston opposed the amendment primarily because he felt it

would place a burden on smaller defense contractors. Proxmire's amendment was adopted 51-22 with the Republicans voting 19-11 and the Democrats 32-11.

With little or no debate the Senate, by voice votes, adopted amendments to exempt contracts of \$100,000 or less from the standards requirement; to eliminate a requirement for Government contracting offices to make payments, with interest, to defense contractors for added costs of adopting cost accounting standards; and to make the Cost Accounting Standards Board a permanent Board. S. 3302, as amended, passed 69-1 with the Republicans voting 28-0 and the Democrats 41-1.

On the basis of the House Committee on Banking and Currency hearings of June 16 through 20, June 22, and July 7, 1970, and an executive session of the committee, the House committee submitted "Report No. 91-1330" to accompany H. R. 17880 as amended.

Report of the House Committee on Banking
and Currency Report No. 91-1330

Uniform Cost-Accounting Standards

Pages two and three of the committee report, dated July 27, 1970, present the committee amendment to H. R. 17880 with respect to uniform cost-accounting standards. The basic features of the amendment, as concerns this study, are as follow: (1) The Board would be an agent of Congress and independent of the executive departments; (2) The Comptroller General would chair the Board and appoint four additional members--two from the accounting profession with particular knowledge about cost accounting problems of small businesses, one from industry,

and one from the Federal Government; and (3) The Board shall by

June 30, 1971, recommend to Congress cost-accounting standards designed to achieve uniformity and consistency in the cost-accounting principle followed by defense contractors and subcontractors under Federal contracts. The Board shall also recommend uniform bid procedures and bid forms for Government agencies to require to be used by all contractors and subcontractors to whom the recommended cost-accounting standards apply.¹⁴⁵ (emphasis added)

The Need for Cost-Accounting Standards

The committee report summarized the arguments presented in the hearings about the need for cost-accounting standards. In particular, the report cited the large percentage of negotiated defense contracts and the difficulty of determining contract costs, the ineffectiveness of section XV of ASPR, the inapplicability of IRS, SEC, and Renegotiation Board regulations, the possibility of substantial costs savings, and the questionable accounting practices identified by the DCAA and GAO.

The report stated: "The committee feels that the careful development of cost-accounting standards would not place industry in a straitjacket or eliminate the flexibility, innovation, or competition in the operations of defense contractors."¹⁴⁶

Responding to the testimony of industry representatives that there already existed a vast body of knowledge about cost accounting, the committee postponed any action requiring the development of new standards and instead recommended the establishment of a Board to:

1. Examine those standards that already exist and are in use.
2. Determine their adequacy.
3. Recommend to Congress cost-accounting standards designed to achieve uniformity and consistency in the cost-accounting practices of defense contractors and subcontractors.¹⁴⁷ (emphasis added)

Minority Views

The Republican members of the committee disagreed with the full committee report on two points: (1) They expressed a preference for Presidential appointment of Board members--with the Comptroller General being included, and (2) They felt more time should be given the Board to accomplish its assigned task.

Additional Views

Representative Garry Brown (R., Michigan), with Lawrence G. Williams (R., Pennsylvania) and Albert W. Johnson (R., Pennsylvania) concurring, expressed the following additional views.

Brown claimed that the feasibility and wisdom of a Congressional mandate on the adoption of cost accounting standards was never resolved by the committee. He cited the Rees amendment to the committee version of the bill as evidence of this claim. The Rees amendment

... directs the Comptroller General through a committee appointed and chaired by him to develop and report a recommended code of uniform accounting standards to the Congress not later than June 30, 1971.¹⁴⁸

Brown referred to testimony given to the committee regarding the fact that the Board should be independent of the GAO and raised questions concerning the separation of powers. Regarding the appointment and composition of the Board, Brown said: " ... I will offer an amendment which would have carried in committee had it not been ruled out of order without explanation...."¹⁴⁹

Joint Resolution

On July 30, 1970, because no definite action had been taken on certain amendments to the Defense Production Act of 1950, a joint resolution extended the effectiveness of the Defense Production Act of 1950 until August 15, 1970.

House Debate on H. R. 17880

Introduction

On July 31, 1970, the House engaged in debate on various aspects of H. R. 17880 related to cost accounting standards and also simultaneously debated various aspects of wage and price controls. For a few minutes the debate would center on cost accounting standards and then it would center on wage and price controls, alternating back and forth with no apparent pattern.

Introduction of Cost Accounting Provision

Representative Patman introduced and summarized the basic features of the proposed legislation on cost accounting standards. In his remarks, Patman observed the comprehensiveness of the GAO study and referred to organizations that supported the conclusions of the GAO study. Patman indicated that cost accounting standards were needed because: (1) They would enhance relationships and communications between all parties, (2) Existing regulations were inadequate or inappropriate, (3) Contractors have too much flexibility in their choice of accounting methods, (4) Contractors were not consistent in the way in which they determine actual costs of contracts, and (5) Present standards were misunderstood.

Opposition to the Cost Accounting Provision

Representative Widnall (R., New Jersey) was the first member to oppose the committee bill. He began his remarks by observing that all members of Congress were concerned about the size of the defense budget and the possibilities of waste, dishonesty, and mismanagement. Widnall noted that the feasibility study was done because

... it was suggested that if all defense contractors were required to utilize uniform cost accounting procedures, it would facilitate administration of previously authorized safeguards. It is interesting to note that both Admiral Rickover and Dr. Robert Anthony, the former Comptroller of the Department of Defense, testified to the effect that administrative procedures could be made effective without the benefit of these standards. Nevertheless, we are moving ahead with them.¹⁵¹

Widnall stated that the GAO report did not say it was feasible to establish uniform cost accounting standards but that it was feasible to establish "cost accounting standards to provide a greater degree of uniformity and cost accounting as a basis for negotiating and administering procurement contracts."¹⁵² Widnall also suggested that no one had defined or given an example of a cost accounting standard and also that no one could draw a line of distinction between a cost accounting system and a cost accounting standard. By presenting some of Rickover's stated ideas on the subject and comparing them with the committee version of the bill, Widnall concluded that the bill was highly responsive to the recommendations of Rickover. In discussing Rickover's estimate of a \$2 billion saving, Widnall labeled it as the kind of guesswork not adequate for responsible legislation.¹⁵³

Other Views on the Cost Accounting Provision

In speaking for the committee bill, Representative Sullivan suggested that in evaluating testimony two things should be considered: (1) Is the testimony based on evidence or unsupported opinion? (2) If based on opinion, is it a knowledgeable opinion?¹⁵⁴ Sullivan then briefly described the GAO feasibility study and its findings and stated that "... great reliance can be placed on such evidence."¹⁵⁵ She then labeled as unsupported opinion the testimony of opponents to cost accounting standards and suggested they were unknowledgeable about the subject. Representative Dwyer expressed support for cost accounting standards and indicated she favored the House version of the bill over the Senate version.

Representative Moorhead (D., Pennsylvania) suggested that uniform cost accounting standards would be an effective anti-inflationary tool and made the following comment.

This other form of inflation I refer to is the inflated cost of defense equipment due to cost overruns on defense contracts. Uniform cost accounting standards would not eliminate all cost overruns, of course, but such standards could have a significant effect on the overrun problem.¹⁵⁶

Moorhead thought the requirement to have the contractor use the same method in estimating cost for cost proposals and for reporting costs could have a desirable effect on cost overruns. Moorhead also argued that standards would be beneficial to small contractors rather than detrimental.

Representative Brown expressed his views, as contained in the committee report, about the appointment of Board members and the length of time for the task. Representative Williams stated that he favored the portion of the bill on uniform cost accounting standards. In

expressing support for UCAS, Representative Heckler also expressed concern for the needs and problems of small business.

Representative Ashley (D., Ohio), identifying himself as one of the 11 original sponsors of the bill, stated:

We, the 11 original sponsors of this legislation felt this was necessary in order to reduce the massive cost overruns, late delivery and nonperformance that have been associated with military procurement. I want to make it clear that I favor a uniform cost-accounting procedure.¹⁵⁷ (emphasis added)

Representative Gonzalez (D., Texas) suggested that cost accounting was a highly technical subject, that most members of the House were not qualified in the area, that the Comptroller General was Congress's accounting expert, that the Comptroller General had no vested interest in the matter, that improvements were needed in the procurement process, and therefore, the House should accept the Comptroller General's recommendation.

Hanna Amendment

Representative Hanna (D., California) offered an amendment that would allow the Board to make recommendations during the five year life of the Board. The amendment was adopted by voice vote.

Brown Amendment

Representative Brown offered an amendment that would establish the Board as an independent agency of the executive branch with members being appointed by the President. Representatives Williams and Blackburn joined Brown in presenting arguments previously cited in this study.

Representative Patman expressed fears that the Board would be ineffective as an executive agency and claimed that the President did not

want the Board.¹⁵⁸ Brown labeled Patman's statement about the President as being inaccurate and said: " ... I do not think the gentleman can point to any significant statement from the President to the effect that he is opposed to the cost accounting standards provisions of this bill."¹⁵⁹

Representative Waggoner (D., Louisiana) suggested that since it was the purpose of the Defense Production Act to protect the legislative branch he thought it would be " ... the height of wisdom ..." ¹⁶⁰ for the control of the Board membership to be under the legislative branch rather than the executive branch. When the amendment was considered tellers were taken and on a vote of 73-81 the amendment was rejected.

Following the rejection of the Brown amendment, the committee amendment, described on page 248, was adopted by a voice vote.

Conference Report

Introduction

Since the Senate disagreed with the House version of the cost accounting standards amendment, a conference was held. The Senate conferees were: Sparkman (D., Texas), Proxmire (D., Wisconsin), Muskie (D., Maine), Mondale (D., Minnesota), Hollings (D., So. Carolina), Bennett (R., Utah), Tower (R., Texas), Goodell (R., New York), and Packwood (R., Oregon). House conferees were: Patman (D., Texas), Sullivan (D., Missouri), Reuss (D., Wisconsin), Ashley (D., Ohio), Widnall (R., New Jersey), Mize (R., Kansas), and Blackburn (R., Georgia).

In a conference report dated August 8, 1970, the " ... House conferees agreed to recede to the Senate version concerning the provisions dealing with uniform accounting standards with two amendments."¹⁶¹ The two amendments contained: (1) A requirement that one of the two professional accountants on the Board must have knowledge of small business accounting, and (2) A requirement that

... any proposed standards, rules or regulations to be promulgated by the Board be transmitted to Congress for 60 days of continuous session, during which Congress could by concurrent resolution block the proposed standards from taking effect.¹⁶²

Senate Action on Conference Report

On August 12, 1970, the Conference Report was presented to the Senate for consideration. Representative Bennett stated that although he was a conferee on the bill he was unable to attend the conference, but had he been there he would not have signed the report.

The debate on the issue was limited and redundant. Bennett made an astute observation when he stated:

... I realize that under the circumstances, these comments and criticisms of mine are more or less meaningless because we have gone too far down the legislative path to change that path.¹⁶³

The conference report was agreed to by a voice vote.

House Action on Conference Report

On August 13, 1970, Representative Patman explained to the House why the House conferees had receded to the Senate version of the cost accounting standards proposal and pointed out the importance of the two amendments the House had required. Debate on the report was very

limited and redundant except for the following claim by Representative Blackburn: "I do not believe the House conferees adequately defended the position of this House. I do not believe they presented their case properly."¹⁶⁴ On a roll call vote of 217-153, the conference report was agreed to. (It should be pointed out that the conference report also contained items relating to wage and price controls and the use of Defense Production Act loan guarantees.)

Final Actions on S. 3302

S. 3302 was signed by the appropriate persons in the House and Senate on August 14, 1970. The bill was approved and signed by the President on August 15, 1970.

According to the Congressional Quarterly Weekly Report, President Nixon objected to all the major provisions (wage-price controls, the CASB, and loan guarantees) Congress added to the Defense Production Act. Regarding the CASB, Congressional Quarterly Weekly Report stated:

He [the President] also objected to the fact that the bill created the uniform cost-accounting board as an agency under the Comptroller General--independent of the Executive Branch. He said the administration and regulation of government contracts was an Executive branch function and that the board's placement under an arm of Congress would violate the separation of powers doctrine. He asked Congress to amend the measure and put the board in the Executive Branch.¹⁶⁵

A copy of the applicable portion of Public Law 91-379 relating to this study is contained in Appendix A.

Summary

Senator Proxmire, on December 23, 1969, introduced S. 3302 which included a requirement that the GAO promulgate uniform cost accounting

standards within 18 months of the enactment of the legislation. On March 31, April 1 and 2, 1970, the Senate Subcommittee on Production and Stabilization of the Committee on Banking and Currency held hearings to discuss the standards requirement and two legislative proposals of the GAO. Following the hearings, the Senate subcommittee adopted an amendment calling for a five-member CASB with the Comptroller General serving as Chairman of the Board and appointing the other four members. The Board was directed to promulgate cost accounting standards to achieve uniformity and consistency in cost accounting and the amendment also included a provision that would have exempted defense contractors and subcontractors from the requirements of the legislation if their annual sales to the Government in the preceding fiscal year was less than \$25 million.

In June and July, 1970, the House Committee on Banking and Currency conducted hearings on the House version of the cost accounting standards legislation. The House version of the bill would have required the Comptroller General to promulgate cost accounting standards. With only two or three exceptions, the witnesses at the House hearings were the same as those at the 1970 Senate hearings. Without exception, the industry association representatives testifying at the House hearings opposed the proposed legislation.

The Senate, on July 9, 1970, rejected the \$25 million exemption contained in the Senate committee version of the bill. The House, on July 27, 1970, presented the House committee amendment to H. R. 17880 which would have required the establishment of a Cost Accounting Standards Board. The Comptroller General would head the Board and appoint four additional members. The Board was to recommend to

Congress cost accounting standards.

Because of differences between the House and Senate versions of the bill, a conference was held. In conference the House receded to the Senate version with two amendments.

The next chapter presents a brief summary of Chapters IV, V, and VI; an analysis of some of the features of Chapters IV, V, and VI; the conclusions of the study; and some suggestions for future research.

FOOTNOTES

¹Congressional Record-Senate, Vol. 115, Part 30 (Washington, D.C., 1969), p. 41048.

²Congressional Record-Senate, Vol. 116, Part 6 (Washington, D.C., 1970), p. 8317.

³U. S. Congress, Senate Subcommittee on Production and Stabilization of the Committee on Banking and Currency, Hearings, Extension of the Defense Production Act and Uniform Cost Accounting Standards (Washington, D.C., 1970), p. 1.

⁴Ibid., pp. 5-7.

⁵Ibid., p. 14.

⁶Ibid., p. 15.

⁷Ibid., p. 16.

⁸Ibid., p. 26.

⁹Ibid., p. 27.

¹⁰Ibid., p. 331.

¹¹Ibid., p. 332.

¹²Ibid., p. 335.

¹³Ibid., pp. 333-334.

¹⁴Ibid., pp. 336-337.

¹⁵Ibid., p. 341.

¹⁶Ibid.

¹⁷Ibid., p. 342.

¹⁸Ibid., p. 344.

¹⁹Ibid.

²⁰Ibid., p. 347.

- ²¹Ibid., p. 368.
- ²²Ibid., p. 370.
- ²³Ibid., pp. 370-371.
- ²⁴Ibid., p. 371.
- ²⁵Ibid., p. 374.
- ²⁶Ibid., p. 377.
- ²⁷Ibid., p. 380.
- ²⁸Ibid., p. 381.
- ²⁹Ibid., p. 382.
- ³⁰Ibid., p. 384.
- ³¹Ibid.
- ³²Ibid., p. 385.
- ³³Ibid., p. 401.
- ³⁴Ibid.
- ³⁵Ibid., p. 403.
- ³⁶Ibid.
- ³⁷Ibid., p. 406.
- ³⁸Ibid., p. 396.
- ³⁹Ibid., p. 411.
- ⁴⁰Ibid., p. 426.
- ⁴¹Ibid., pp. 430-431.
- ⁴²Ibid., p. 432.
- ⁴³Ibid., p. 433.
- ⁴⁴Ibid.
- ⁴⁵Ibid., p. 435.
- ⁴⁶Ibid., p. 439.
- ⁴⁷Ibid., p. 446.

- ⁴⁸Ibid., p. 492.
- ⁴⁹Ibid., p. 493.
- ⁵⁰Ibid., p. 494.
- ⁵¹Ibid., p. 495.
- ⁵²Ibid., pp. 521-522.
- ⁵³Ibid., p. 496.
- ⁵⁴Ibid., p. 500.
- ⁵⁵Ibid., p. 502.
- ⁵⁶Ibid., p. 530.
- ⁵⁷Ibid., p. 531.
- ⁵⁸Ibid., p. 521.
- ⁵⁹Ibid., p. 540.
- ⁶⁰Ibid., p. 546.
- ⁶¹Ibid., p. 543.
- ⁶²Ibid.
- ⁶³Ibid., p. 544.
- ⁶⁴Ibid., p. 549.
- ⁶⁵Ibid., pp. 549-550.
- ⁶⁶Ibid., p. 553.
- ⁶⁷Ibid., p. 557.
- ⁶⁸Ibid., p. 558.
- ⁶⁹Ibid.
- ⁷⁰Ibid., p. 561.
- ⁷¹Ibid., p. 562.
- ⁷²Ibid., p. 566.
- ⁷³Ibid., p. 576.
- ⁷⁴Ibid., pp. 577-578.

⁷⁵U. S. Congress, Senate, Report to Accompany S. 3302 (Washington, D.C., 1970), p. 1.

⁷⁶Ibid., p. 5.

⁷⁷Ibid., p. 4.

⁷⁸Ibid., p. 5.

⁷⁹Ibid., p. 7.

⁸⁰Ibid.

⁸¹Ibid., p. 8.

⁸²Ibid.

⁸³Ibid., p. 9.

⁸⁴Ibid., p. 11.

⁸⁵Ibid., p. 12.

⁸⁶Ibid., p. 13.

⁸⁷Ibid., pp. 14-16.

⁸⁸U. S. Congress, House Committee on Banking and Currency, Hearings to Amend the Defense Production Act of 1950, and for Other Purposes (Washington, D.C., 1970), pp. 1-2.

⁸⁹Ibid., p. 170.

⁹⁰Ibid., p. 171.

⁹¹Ibid., pp. 174-177.

⁹²Ibid., p. 187.

⁹³Ibid.

⁹⁴Ibid., p. 188.

⁹⁵Ibid., p. 208.

⁹⁶Ibid., p. 209.

⁹⁷Ibid.

⁹⁸Ibid., p. 219.

- ⁹⁹Ibid., p. 232.
- ¹⁰⁰Ibid., p. 233.
- ¹⁰¹Ibid.
- ¹⁰²Ibid.
- ¹⁰³Ibid., p. 235.
- ¹⁰⁴Ibid., p. 238.
- ¹⁰⁵Ibid.
- ¹⁰⁶Ibid., p. 239.
- ¹⁰⁷Ibid., pp. 305-306.
- ¹⁰⁸Ibid., pp. 312-313.
- ¹⁰⁹Ibid., p. 322.
- ¹¹⁰Ibid., p. 323.
- ¹¹¹Ibid., p. 324.
- ¹¹²Ibid., p. 327.
- ¹¹³Ibid., p. 344.
- ¹¹⁴Ibid.
- ¹¹⁵Ibid., p. 352.
- ¹¹⁶Ibid., p. 359.
- ¹¹⁷Ibid., p. 397.
- ¹¹⁸Ibid., p. 448.
- ¹¹⁹Ibid.
- ¹²⁰Ibid., p. 467.
- ¹²¹Ibid., p. 478.
- ¹²²Ibid.
- ¹²³Ibid., pp. 479-480.
- ¹²⁴Ibid., p. 481.
- ¹²⁵Ibid., pp. 488-492.

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- 139 Congressional Record-Senate, 91st Congress, 2nd Session, Vol. 116, Part 17 (Washington, D.C., 1970), pp. 23455-23456.
- 140 Ibid., pp. 23457-23459.
- 141 Ibid., p. 23459.
- 142 Ibid., p. 23460.
- 143 Ibid., pp. 23460-23461.
- 144 Ibid., p. 23460.
- 145 U. S. Congress, House of Representatives, Report Together With Minority Views and Additional Views to Accompany H. R. 17880, Report No. 91-1330 (Washington, D. C., 1970), p. 3.
- 146 Ibid., p. 6.
- 147 Ibid., p. 8
- 148 Ibid., p. 17.
- 149 Ibid., p. 19.
- 150 Congressional Record-House, 91st Congress, 2nd Session, Vol. 116, Part 20 (Washington, D.C., 1970), pp. 26798-26799.

151 Ibid., p. 26799.

152 Ibid.

153 Ibid., p. 26800.

154 Ibid., p. 26802.

155 Ibid., p. 26803.

156 Ibid., p. 26811.

157 Ibid., p. 26823.

158 Ibid., p. 26828.

159 Ibid.

160 Ibid.

161 U. S. Congress, House, Conference Report to Accompany S. 3302, Report No. 91-1386, 91st Congress, 2nd Session (Washington, D. C., 1970), p. 6.

162 Ibid., p. 7.

163 Congressional Record-Senate, 91st Congress, 2nd Session, Vol. 116, Part 21 (Washington, D. C., 1970), p. 28491.

164 Congressional Record-House, 91st Congress, 2nd Session, Vol. 116, Part 21 (Washington, D. C., 1970), p. 28802.

165 "Defense Production Act," Congressional Quarterly Weekly Report, Vol. XXVIII, Part 3 (Washington, D. C., August 21, 1970), p. 2091.

CHAPTER VII

SUMMARY AND CONCLUSIONS

Introduction

Chapters III, IV, V, and VI of this study, when considered together, provide an adequate and credible account of the events leading to the establishment of the CASB and in so doing also provide some insights into the events that caused Congress to establish the CASB. This chapter presents a brief summary of Chapters IV, V, and VI, examines some of the witnesses, presents the basic conclusions of the study, presents implications for financial accounting, and makes some suggestions for future research.

Summary of Chapters IV, V, and VI

Chapters IV, V, and VI represent an attempt to tell the story of the establishment of the CASB in such a way that the story itself, and an awareness of the contents of Chapter III, provides an adequate explanation of the establishment of the CASB. This particular section of Chapter VII summarizes the salient features of Chapter IV, V, and VI.

Admiral Rickover, since 1963, had appeared before congressional committees and argued for uniform cost accounting standards. On April 11, 1968, Rickover argued that contractors made higher profits on defense contracts than commercial contracts, that it was not possible under the present system to determine what was cost and what was profit,

that contractors had unlimited flexibility in assigning costs to contracts, that accountants could not agree on what constitutes generally accepted accounting principles, and that if there were uniform accounting standards the Government could save \$2 billion a year.

On June 4, 1968, the House considered an amendment to the Defense Production Act of 1950 requiring the Comptroller General to develop and recommend uniform standards of accounting for all negotiated prime contract and subcontract defense procurements in excess of \$100,000 so that production costs and profits could be determined by individual order. Opponents of the amendment argued that the subject was beyond the jurisdiction of the committee, that it implied all defense contractors were crooks and profiteers, that uniform procedures would increase contractor costs, that uniform accounting procedures would have an adverse effect on small contractors, that there had been no complaints from the Defense Department, and that the establishment of uniform procedures was impractical. After the committee amendment passed, Representative Gonzalez offered an amendment requiring the Comptroller General to promulgate rather than recommend standards. His amendment was rejected.

The Senate Committee on Banking and Currency heard the testimony of 11 witnesses regarding Senator Proxmire's amendment and the House amendment with respect to uniform accounting standards on June 11, 1968. Ten of the eleven witnesses expressed opposition to any legislation on the matter of uniform accounting standards. The opponents presented arguments such as follows: standards (sometimes referred to as systems and/or procedures) were unnecessary, impractical, costly, an harassment to business; the term "uniform accounting standards" was without

definition; that uniform standards would not necessarily eliminate excessive profits; some companies might have to keep another set of records; some companies might discontinue Government operations and thereby reduce competition; ASPR and other regulations were adequate; Rickover's claim of excessive profits was based on misunderstanding; and that uniform accounting standards would adversely affect the small contractor. J. S. Seidman, the only witness supporting uniform accounting standards, argued there was too much flexibility in the application of accounting principles and allocation methods.

Proxmire's amendment failed to get out of committee and on June 26, 1968, he introduced an amendment requiring the feasibility study by the Comptroller General. Arguments against the amendment were basically the same as those given at the 1968 Senate hearings. Proxmire argued that cost accounting principles can have a large impact in determining contractor costs, therefore, there should be some standards to follow. The amendment passed the Senate by almost a 2 to 1 margin and the House concurred.

On the basis of an extensive study, the Comptroller General concluded that it was feasible to establish and apply cost-accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts.

On December 23, 1969, Senator Proxmire introduced S. 3302 which included a requirement that the GAO promulgate uniform cost accounting standards within 18 months of the enactment of the legislation. The Senate Subcommittee on Production and Stabilization of the Committee on Banking and Currency held hearings on March 31, April 1 and 2, 1970,

about the standards requirement and two legislative proposals of the GAO. Of the sixteen witnesses, eight supported some form of legislation and eight opposed any legislation. In addition to arguments given previously at the 1968 Hearings, proponents gave these arguments. Standards would result in improved communications, more understanding by respective parties, better relationships, a reduction in disputes, and have a salutary effect on cost overruns. Opponents provided these additional arguments. The GAO study did not establish feasibility, desirability, need; the cases cited by the GAO were not representative; and, there had been no cost-benefit study. In addition to arguments for and against the promulgation of standards, several witnesses expressed their views about the three proposals and the predominate opinion seemed to be that the Board should be an independent agency within the executive branch. Many witnesses also offered alternative proposals to S. 3302 for consideration.

The Senate Committee on Banking and Currency adopted an amendment calling for a five member CASB to be appointed by the Comptroller General who would be designated as chairman of the Board. The Board was directed to promulgate cost accounting standards to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and to issue rules requiring advance disclosure of cost accounting practices used by the contractors. The amendment also contained a clause excluding certain contractors whose sales to the Government in the preceding fiscal year did not exceed \$25 million.

In June and July, 1970, the House Committee on Banking and Currency held hearings to get views on the House version of the cost accounting standards and for other purposes. The House version called for, among

other things, the Comptroller General, as an agent of Congress, to promulgate cost-accounting standards and also to establish a Cost Accounting Standards Advisory Board. Basically, the arguments presented for and against were the same given in previous hearings and debates. Perhaps the highlight of the hearings was the question of whether opponents of the proposal would be given a chance to express their views.

On July 9, 1970, the Senate rejected an amendment by Representative Bennett to require the President to appoint the Board members, subject to Senate approval, and approved a Proxmire amendment to eliminate the \$25 million exemption.

On July 27, 1970, the House committee submitted an amendment calling for the Board to be an agent of Congress with the Comptroller General serving as chairman and appointing four other members. The Board would recommend rather than promulgate standards. On July 31, 1970, the House debate centered on whether the Board should be an agent of Congress or the executive branch. With minor alteration the House accepted the committee amendment.

Because the Senate disagreed to the House version of the amendment, a conference was held. In conference the House receded to the Senate version with two amendments.

Examination of Witnesses

Introduction

This section of the study presents an examination of some of the witnesses. Elements of negative criticism are used to try to determine

the credibility, truthfulness, reliability, and trustworthiness of their statements. In performing this examination, the study, when possible, seeks answers to the following questions: (1) Was the witness qualified to testify on the subject? (2) Did the witness give reliable testimony? (3) Was the witness self-seeking? (4) Was the behavior of the witness consistent with long-term behavior? and (5) Was the testimony of the witness persuasive?

In those cases where the study does not provide adequate evidence to answer one or more of the above questions, it will be so stated.

Proponents of Cost Accounting Standards

Admiral Rickover

Although not an accountant, Rickover over the years had demonstrated in his dealings with defense contractors that he is knowledgeable in the area of defense contracting. Witnesses at the hearings pointed out that Rickover was a tough negotiator and that some contractors preferred not to deal with him. Congressmen were seemingly impressed by Rickover's knowledge of contracting because in numerous hearings from 1963 forward, they asked for his views on defense contracting and defense costs. While admitting he was not an accountant, Rickover always came well prepared to committee hearings and was able to talk authoritatively with respect to increasing costs and profits. Because of their lack of accounting expertise, it is highly questionable whether the members of Congress were aware of those cases in which Rickover gave inconsistent or illogical testimony relating to accounting.

In at least two cases, the testimony of Rickover was not reliable.

First, the two billion dollar estimate. The manner by which Rickover arrived at the figure was labeled illogical by critics. In arriving at the figure, Rickover equated negotiation to cost accounting standards. In his 1970 House Testimony, Rickover said:

I will tell you how I arrived at this figure, sir. Whenever I have the time to take on one of these contracting issues, I invariably find contractors claiming 5 to 10 percent or more higher than they actually are (sic). I believe that if people were able to determine costs readily, in accordance with proper standards, this would reduce prices for defense equipment by at least 5 percent. On a total of \$40 billion in procurement, if you save only 5 percent, that will amount to \$2 billion.¹

Another example that raises doubt concerning Rickover's reliability as a witness on accounting matters is his statement that if given the resources available to the Comptroller General he would set up uniform cost accounting standards in 18 months.

While it is admitted that Rickover is concerned about the National defense, and perhaps the taxpayer, it must also be observed that some of his testimony presented in this study indicates that he is self-seeking (see page 226).

It is in this respect, self-seeking, that Rickover's behavior is consistent over the long run. In Chapter IV of this study, it was pointed out that Rickover was inconsistent in his testimony regarding industry profits. However, Rickover is consistent in presenting arguments to support his position on particular issues. (See pages 122-123.)

Rickover and his opinions are highly respected by many Congressmen. Throughout the hearings and the debates, numerous references were made by Congressmen to Rickover's testimony. Rickover is both a part of and a severe critic of the defense establishment. Members of

Congress were impressed by his previous successes and by his forthright manner of testifying before them. Because of all this, Rickover was probably one of the most persuasive witnesses before Congress.

Senator Proxmire

Senator Proxmire was the first witness to testify at the 1970 Senate Subcommittee hearings and according to Senator Mondale was the chief sponsor of the uniform cost accounting concept. Of all men in Congress, Proxmire was probably one of the more qualified to testify in this area since he had established himself as a critic of waste and inefficiency in Government and had conducted his own hearings regarding defense profits and procurement.

In general, Proxmire's testimony was reliable at the hearings and also at debates, but some accountants might question the reliability of his testimony because of his short-range view with respect to the time needed to promulgate accounting standards. Proxmire, like Rickover, envisioned the task as being less difficult than do accountants.

As pointed out in Chapter III of this study, it is claimed that Proxmire has a secret ambition to be the best and most influential Senator, in his own way. In the past few years, Proxmire's own way seems to have been to identify with some seemingly obscure issue which later comes into prominence. He did so in this case and therefore in a sense could be said to be self-seeking. Proxmire was consistent in his attempt to put some controls on defense spending and in his fight against inefficiency in Government.

Having developed a reputation as being a disciplined and effective

legislator as well as being well informed on the issues with which he associates himself, Proxmire was apparently persuasive in getting the cost accounting standards legislation through Congress. His influence is seen in the fact that even though the amendment relative to cost accounting standards failed to get out of the Senate Committee in 1968 Proxmire was able to get an amendment adopted on the floor of the Senate which required that the GAO feasibility study be done. Senator Mansfield (D., Montana) made the following remarks on the floor of the Senate shortly after S. 3302 passed the Senate on July 9, 1970:

It was through the fine efforts and skill of the managers of this bill, the distinguished Senators from Minnesota (Mr. Mondale) and Wisconsin (Mr. Proxmire) that we were able to achieve completion today on this measure as well. They both demonstrated again what has been so evident to us in the Senate, that each masters fully their (sic) subject before bringing a measure to the floor.²
(emphasis added)

J. S. Seidman

J. S. Seidman was the only witness, other than Rickover, who supported the idea of uniform accounting standards prior to the GAO feasibility study. As a practicing C.P.A. with previous procurement experience in the Navy, it would seem that he was qualified to testify on the subject. The consistency and nature of Seidman's testimony tend to indicate his reliability as a witness. Seidman was the only proponent of cost accounting standards, other than Rickover, who consistently supported the concept of cost accounting standards. Stating that he represented no organization, Seidman gave testimony that could not have been pleasing to industry and perhaps some of his clients. It seems that Seidman was a credible witness and that he was to some extent persuasive - e.g., reflecting two changes suggested by Seidman,

there is no mention of "accurate" production costs in the law and the development of cost accounting standards is a continuing process.

Seidman had also recommended that the Comptroller General be in charge, which he is. This study does not provide evidence to allow a judgment of whether Seidman was self-seeking.

Leonard Savoie

Leonard Savoie, as executive vice president of the AICPA would seemingly be qualified to give testimony regarding cost-accounting standards. Even though the AICPA shifted from the role of being an opponent to the role of a qualified supporter of cost accounting standards, a careful reading of the record reveals Savoie's testimony was not necessarily totally inconsistent. A comparison of the synopsis of Savoie's testimonies on pages 130-132 and 194-196 of this study will lend support to this claim. However, the shift from being an opponent to a qualified supporter of cost accounting standards might cause one to wonder about the reliability of the testimony of Savoie.

Because of the relationship between members of the AICPA and industry, it would be far-fetched to think that the AICPA was completely objective in its testimony. The post-GAO study testimony of Savoie evidently was persuasive because some of his recommendations given on page of this study were incorporated into the law.

GAO Representatives

On the basis of GAO experience in accounting and the procurement area, it would have to be conceded that the GAO was qualified to give testimony. The GAO, like the AICPA, changed its position on the

question of cost accounting standards and because of this apparent inconsistency some might question the reliability of the testimony of the GAO representatives. However, like the AICPA, a comparison of pages 129-130 and 185-189 of this study reveals the change was not as drastic as it appears on the surface. Of all the witnesses who gave testimony it seems that the GAO was the only one that did not have some kind of vested interest in the testimony given. Unless one accepts the argument that the GAO was under pressure from Congress to conclude that the development of cost accounting standards was feasible and needed it would have to be conceded that the GAO was to a very large degree not self-seeking. Apparently Congress did not see the GAO as having a special interest in the outcome of the study. Also, there can be little doubt that the GAO feasibility study had a very significant impact on the legislation.

Kenneth M. Jackson

As chairman, procurement regulations committee of the National Aerospace Services Association, Jackson would seemingly have an adequate awareness of the procurement process and, therefore, qualify as a witness in this area. Jackson was the only witness representing an industry association who supported cost accounting standards and in his testimony he called for stronger measures than were being considered. In view of the testimony given by other representatives of industry it is difficult to see how Jackson's testimony could be classified as self-seeking. His comments obviously impressed Proxmire and some of Jackson's recommendations are reflected in the law. This study does not provide evidence to allow a judgment of whether or not Jackson's testimony was

consistent with his long-term behavior. Overall, Jackson's testimony appeared to be reliable.

Leonard Spacek

In his roles as chairman of Arthur Andersen & Co., a director of the Logistics Management Institute, and a member of the Industry Advisory Council, Leonard Spacek apparently had the background to give reliable testimony on the subject. In his testimony, Spacek alluded to the concept of fairness which was consistent with many of his previous statements regarding accounting principles and it is difficult to imagine how his testimony could be classified as self-seeking. As with other witnesses, some of Spacek's recommendations are reflected in the law.

Opponents of Cost Accounting Standards

Howard Wright

As the drafter of part 1, section XV of ASPR and an author in the area of defense contracting, Howard Wright was certainly qualified to testify on the subject. The fact that he was the drafter of part 2, section XV of ASPR and that this document was under question as being inadequate causes one to question the objectivity and reliability of Wright's testimony. In fact, as indicated on page 194 of this study, Proxmire seemed to question Wright's motives and brought out the fact that Wright was a consultant to 24 organizations -- all of which did work for the Department of Defense. A comparison of the synopsis of Wright's testimonies on pages 132-133 and 191-194 of this study shows that Wright was consistent in his opposition to cost accounting

standards legislation. Some of Wright's recommendations were reflected in the legislation as it moved through Congress.

Industry Associations

The witnesses for the industry associations were either accountants, financial executives, procurement officials, and/or were accompanied by individuals with an accounting, financial, or procurement background and as such seemed qualified to testify on the subject in question. Apparently the industry associations were highly concerned about the effect on industry of the proposed standards. As indicated in Chapters IV and VI of this study, these associations were consistent in arguing against added government regulations. The nature of the testimony of representatives of industry associations tends to indicate that they were self-seeking. In at least one case, an industry representative gave some misleading testimony which was challenged and corrected by Senator Proxmire (see page 197). This could cause one to wonder about the reliability of that particular witness. Because of the self-interest of the industry associations, it seems that there could be some question concerning the reliability of their testimony.

An examination of the changes that occurred in the legislation on cost accounting standards seems to indicate that the testimony of representatives of industry associations was in some cases persuasive. For example, in testifying before the 1970 Senate Subcommittee, Charles W. Stewart recommended that no time limit be placed on the development of standards. He also recommended that the agency in charge of developing and applying the standards be required to coordinate its program with interested professional organizations,

defense and nondefense industry, and affected Governmental agencies. The final cost accounting standards legislation places no time limit on the development of standards and the legislation does require that the Board consult with interested parties.

Basic Conclusions of the Study

The Proper Question

Gary Bulmash, in his 1974 "An Inquiry Into the Background of and Circumstances Leading to the Establishment of the Cost Accounting Standards Board," concluded, among other things, " ... the Feasibility Study and the cases described therein failed to prove that cost accounting standards were needed and feasible."³ The obvious question arises: "Failed to prove to whom?" The opponents? Bulmash? Accountants? It is of little importance whether these individuals or groups of individuals were convinced of the need or feasibility of cost accounting standards. The important point is that the Feasibility Study and the cases included therein plus other evidence presented either convinced Congress of the need and feasibility of cost accounting standards or members of Congress were not highly concerned about the matter and they merely followed the leaders.

As indicated in Chapters IV and VI of this study, both proponents and opponents of cost-accounting standards regulations admitted that there were weaknesses in the then existing regulations. Congress appears to have had three alternatives concerning these weaknesses: (1) Ignore the problem, (2) Try to correct the problem by amending and strengthening the enforcement of existing regulations, and (3) Try to correct the problem by setting up a completely new mechanism.

Congress chose to set up a completely new mechanism. Why?

First, proponents of a new mechanism argued that the old system had been ineffective and inadequate for years. Robert Anthony stated that "... a fresh start by an agency outside the Pentagon ..."⁴ Was needed. Anthony argued that the claimed inadequacies of section XV of ASPR could have been corrected by those in responsibility but the inadequacies had not been corrected, and he saw no indication that they would be in the future. Rickover also argued for a new mechanism and went so far as to say: "Effective cost accounting standards will not be established if Congress turns the job over to the executive branch or to a special board."⁵

Second, the GAO Feasibility report recommended that: "New machinery should be established for the development of cost-accounting standards."⁶ Throughout the hearings Congressmen expressed respect for and faith in the GAO and the Comptroller General and gave indication that the opinions of the GAO and Comptroller General were highly valued. As stated in this study, Representative Gonzalez suggested that cost accounting was a highly technical subject in which most Congressmen had little expertise; that the Comptroller General was Congress's accounting expert and had no vested interest in the matter under consideration; that improvements were needed in the procurement process; and, therefore, the House should accept the Comptroller General's recommendation. Obviously, the Congress heeded the Comptroller General's recommendation with respect to new machinery. Third, when one considers the extended debate in both the Senate and the House concerning whether the Board should be an executive agency or an independent agency within the legislative branch and the outcome of that debate, it appears that

Congress was interested in having control over the Board and also that Congress thought the Board would be more effective if it was not an executive agency. During the hearings and debates, several Congressmen argued that executive agencies were controlled by those parties they were set up to regulate. As was already pointed out, the then existing machinery was in the executive branch.

This study concludes that it was not a question of whether or not the Feasibility Study and the cases described therein failed to prove that cost accounting standards were needed and feasible and that a new mechanism was needed. Because of the mood of Congress; Congress's high regard for Rickover, the GAO, the Comptroller General; and Congress's lack of expertise in accounting matters, the probable question was: "Could industry to prove to Congress that cost accounting standards were not needed and not feasible?" Obviously, they failed.

The Basis for Failure

As indicated in Chapter III Congress was becoming increasingly concerned about defense spending and the press was applying a significant amount of pressure. Committees of Congress that formerly were always pro-military were beginning to raise questions about defense spending. In 1969, the Senate engaged in the longest debate on any military procurement bill. Congressional Quarterly Weekly Report described the mood of Congress in the following was:

By the end of 1969, the mood had turned so completely against massive defense spending that the Administration and Congress were both moving to rein in military spending not only in the current year but in future years.⁷

Congressmen were also expressing concern about cost-overruns and the military-industrial complex.

In the Congressional hearings and debates reviewed in Chapters IV and VI there is evidence that some Congressmen thought there was some kind of cause and effect relationship between cost-overruns and the lack of cost accounting standards. It is not known how prevalent that view was among members of Congress, but it apparently existed. Also, one of the basic arguments advanced for cost accounting standards was that the standards would help reduce the costs of defense contracts. While it was never proved that such standards would reduce costs, it also was not proved that they would not. Seemingly, at that particular point in time, Congress was interested in trying anything that might conceivably reduce defense spending--either directly or indirectly--and perhaps, preferably, indirectly. Other testimony and arguments given implied that the standards might help to negate the influence of the military-industrial complex.

While the arguments for cost accounting standards were of a highly subjective nature, the arguments against the standards were no less subjective. Too, the technical nature of the subject seemed to confuse some members of Congress and some admitted their lack of expertise on the subject. Other members of Congress demonstrated their lack of expertise and understanding of the subject by their remarks.

Based on the remarks of Representatives Sullivan and Galifianakis, it appears that one reason the opponents failed in their efforts to stop cost accounting standards legislation was because of a poor plan of attack and a misplaced emphasis. Sullivan implied that the GAO feasibility study and its findings were good evidence and that the testimony of opponents was unsupported opinion based on little knowledge. Galifianakis suggested that the 1970 House Committee was more impressed

by Rickover's statement regarding the claimed inability of contractors to tell how they determined their costs than by his claim of a possible \$2 billion savings. Seemingly, opponents of cost accounting legislation should have concentrated their efforts on a study or studies to support their arguments. Even then, when the mood and the lack of accounting expertise of Congress is considered, the question remains whether the opponents would have been effective.

Conclusion of the Study

The storytelling method of presenting the evolutionary aspects of the CASB was primarily used to provide an explanation and to allow the reader to form his own conclusions on why the CASB came into being. This section of the concluding chapter sets forth the conclusions of the researcher.

1. The mood of Congress was such that it was not a question of providing that cost accounting standards were feasible and needed but a question of proving that they were not feasible and not needed.
2. The opponents of cost accounting standards legislation were unsuccessful in their attempt to prevent the legislation because they could not support their arguments and because they were seen by many Congressmen as having a vested interest in the subject--therefore, their testimony was subject to question.
3. Admiral Rickover is highly regarded in Congress and his opinion is seldom subject to question.

4. Senator Proxmire kept the question alive in 1968 and used the committees of which he was a member to keep the issue before the Senate. Proxmire also utilized press releases about cost-overruns and defense spending to advantage.
5. Congress places a great amount of confidence in the Comptroller General. In his report, he recommended that cost accounting standards be developed. It would seem the Comptroller General's recommendations helped to convince Congress there was a need for cost accounting standards.
6. Representative Patman not only gave Admiral Rickover a sounding board for his views at a most opportune time, but also controlled his committee and the House hearings in such a way as to keep the proposal alive.

Implications for Financial Accounting

Introduction

This study has focused on the events leading to the establishment of the CASB. It is possible that events similar to those leading to the establishment of the CASB could occur in financial accounting. With this possibility in mind, it seems that this study could be used as a basis for a limited projection on implications for financial accounting.

In the June 7, 1976, issue of Business Week, in an article entitled "Focus on Balance Sheet Reform" the following comments appear.

It may already be too late to prevent a replay [referring to the investment credit and Congressional intervention]. Senator Lee Metcalf (D., Montana), Chairman of the Senate reports, accounting, and management subcommittee, has started an investigation into how accounting rules are made, possibly to answer the question of why the Securities and Exchange Commission has turned rule-making over to the private sector.

... There is the constant threat that what the accountants do not do on their own, the SEC might someday do for them--turning accounting into just another regulated industry. ⁸ Even worse, Congress may take a hand at writing the rules. (emphasis added)

In the same article, Walter E. Hanson, senior partner of Peat Marwick Mitchell and Company, is quoted as saying:

The FASB is the last chance for the private sector ... and if business tears that apart, we're right down to government regulation--whether it be through the SEC or Congress creating some other body to make accounting principles.⁹ (emphasis added)

From these quotes, it appears that there is a growing awareness and concern that Congress may decide to play some role in financial accounting. Assuming that accountants in general oppose government regulation of accounting and based on the contents and findings of this study, the following recommendations are offered.

Recommendations

If government regulation of financial accounting is not desired, accountants should consider the important role played by Congressional committees and the chairmen of Congressional committees.

Congressional Committees

In his book, In Congress Assembled, Daniel M. Berman, professor of Government and Public Administration, The American University, states: "It is difficult to exaggerate the power of a committee chairman."¹⁰ He then describes various ways in which the committee chairman exercises this power to satisfy his desires. Chairman Wright Patman demonstrated his power as chairman of the House Committee on Banking and Currency in the way he scheduled witnesses. He also demonstrated this

power in executive session when he ruled as being out of order an amendment proposed by Representative Brown.

Regarding subcommittees, Berman makes this observation:

Such subcommittees, and particularly their chairmen, frequently become authorities on the subjects with which they deal, and anything they say will probably command attention both among their colleagues and in the press.¹¹

Senator Proxmire fits this description in that as Chairman of the Joint Economic Subcommittee on Economy in Government he has conducted numerous hearings regarding defense spending and related matters and is recognized as an authority in this area.

Woodrow Wilson once described the American form of Government as "... government by the standing committees of Congress."¹² Recognizing the role of the committee chairman and the lack of technical accounting expertise on the part of most members of Congress, it seems that the accounting profession would be wise to keep a careful watch on all committees and subcommittees that are, or might become, involved in accounting matters. If and when a committee or subcommittee shows an interest in accounting matters, the accounting profession seemingly should be prepared to present sound and supportable arguments in such a way to have the desired affect upon the committee and the committee chairman. It seems clear, based upon the circumstances surrounding the establishment of the CASB, that if one is in a sense the "accused" party it becomes all important to build a solid foundation for arguments presented rather than to present what some Congressmen might label unsupported opinions. Also, if the battle is not won in committee it is in all probability doomed.

Mechanism

If it becomes apparent that all efforts of preventing government regulation are going to fail, the accounting profession should already have available recommendations to offer as to the mechanism to be used. An analysis of the cost accounting standards legislation illustrates that recommendations from both proponents and opponents of the legislation were considered and many of them were reflected in the final legislation.

Suggestions for Future Research

During the course of this study, several areas in which further research is needed were noted. Some of these areas are studies to determine:

1. Whether the implementation and maintenance of cost accounting standards has had an effect on contract costs.
2. If small and medium size firms have eliminated their defense business.
3. If small contractors benefitted from the promulgation of cost accounting standards.
4. For companies of all sizes, if extensive changes in accounting systems were (and are being) required to implement and maintain cost accounting standards.
5. Whether the communication processes have improved and whether the frequency and seriousness of disputes has been reduced.
6. If the GAO has lost any of its independence, in fact or appearance, as a result of the Comptroller General's position.

FOOTNOTES

¹U. S. Congress, House Committee on Banking and Currency, Hearings to Amend the Defense Production Act of 1950 and for Other Purposes (Washington, D.C., 1970), p. 268.

²Congressional Record-Senate, 91st Congress, 2nd Session, Vol. 116, Part 17 (Washington, D.C., 1970), p. 23496.

³Gary F. Bulmash, "An Inquiry Into the Background of and Circumstances Leading to the Establishment of the Cost Accounting Standards Board" (unpub. Ph. D. dissertation, University of Maryland, 1974.) p. 288.

⁴U. S. Congress, House Committee on Banking and Currency, Hearings ..., 1970, p. 188.

⁵Ibid., p. 240.

⁶U. S. Comptroller General, Report on the Feasibility of Applying Uniform Cost-Accounting Standards to Negotiated Defense Contracts (Washington, D.C., 1970), p. viii.

⁷"Military Critics Win Some Battles on Defense Costs," Congressional Quarterly Weekly Report, Vol. XXVII, No. 51 (December 19, 1969), p. 2655.

⁸"Focus on Balance Sheet Reform," Business Week, No. 2435 (June 7, 1976), p. 53.

⁹Ibid., p. 54.

¹⁰Daniel M. Berman, In Congress Assembled (New York, 1964), p. 121.

¹¹Ibid., p. 124.

¹²Ibid., p. 121.

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APPENDIX

APPLICABLE PORTION OF PUBLIC LAW 91-379

Public Law 91-379
91st Congress, S. 3302
August 15, 1970

An Act

To amend the Defense Production Act of 1950, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Defense Production Act of 1950, amendment.

TITLE I—DEFENSE PRODUCTION ACT AMENDMENTS

§ 101. Extension of Act

The first sentence of section 717(a) of the Defense Production Act of 1950 (50 U.S.C. App. 2166(a)) is amended—

Ante, p. 694.

(1) by striking out “August 15, 1970” and inserting in lieu thereof “June 30, 1972”; and

(2) by striking out “section 714” and inserting in lieu thereof “sections 714 and 719”.

Infra.

§ 102. Definitions

Section 702 of the Defense Production Act of 1950 (50 U.S.C. App. 2152) is amended—

64 Stat. 815;
67 Stat. 130.

(1) by inserting “space,” after “stockpiling,” in subsection (d); and

(2) by adding at the end thereof a new subsection as follows:

“(f) The term ‘defense contractor’ means any person who enters into a contract with the United States for the production of material or the performance of services for the national defense.”

“Defense contractor.”

§ 103. Uniform cost-accounting standards

Title VII of the Defense Production Act of 1950 is amended by adding at the end thereof a new section as follows:

82 Stat. 279.
50 USC app.
2151-2167.

“COST-ACCOUNTING STANDARDS BOARD

“Sec. 719. (a) There is established, as an agent of the Congress, a Cost-Accounting Standards Board which shall be independent of the executive departments and shall consist of the Comptroller General of the United States who shall serve as Chairman of the Board and four members to be appointed by the Comptroller General. Of the members appointed to the Board, two, of whom one shall be particularly knowledgeable about the cost accounting problems of small business, shall be from the accounting profession, one shall be representative of industry, and one shall be from a department or agency of the Federal Government who shall be appointed with the consent of the head of the department or agency concerned. The term of office of each of the appointed members of the Board shall be four years, except that any member appointed to fill a vacancy in the Board shall

84 Stat. 796
84 Stat. 797

80 Stat. 461;
83 Stat. 864.
5 USC 5315 and
note.

serve for the remainder of the term for which his predecessor was appointed. Each member of the Board appointed from private life shall receive compensation at the rate of one two-hundred-sixtieth of the rate prescribed for level IV of the Federal Executive Salary Schedule for each day (including traveltime) in which he is engaged in the actual performance of duties vested in the Board.

5 USC 5101,
5361, 7501;
35 F. R. 6247.

“(b) The Board shall have the power to appoint, fix the compensation of, and remove an executive secretary and two additional staff members without regard to chapter 51, subchapters III and VI of chapter 53, and chapter 75 of title 5, United States Code, and those provisions of such title relating to appointment in the competitive service. The executive secretary and the two additional staff members may be paid compensation at rates not to exceed the rates prescribed for levels IV and V of the Federal Executive Salary Schedule, respectively.

“(c) The Board is authorized to appoint and fix the compensation of such other personnel as the Board deems necessary to carry out its functions.

5 USC 5101,
5361, 7501;
35 F. R. 6247.

“(d) The Board may utilize personnel from the Federal Government (with the consent of the head of the agency concerned) or appoint personnel from private life without regard to chapter 51, subchapters III and VI of chapter 53, and chapter 75 of title 5, United States Code, and those provisions of such title relating to appointment in the competitive service, to serve on advisory committees and task forces to assist the Board in carrying out its functions and responsibilities under this section.

80 Stat. 463;
83 Stat. 864.
5 USC 5316
and note.

“(e) Except as otherwise provided in subsection (a), members of the Board and officers or employees of other agencies of the Federal Government utilized under this section shall receive no compensation for their services as such but shall continue to receive the compensation of their regular positions. Appointees under subsection (d) from private life shall receive compensation at rates fixed by the Board, not to exceed one two-hundred-sixtieth of the rate prescribed for level V in the Federal Executive Salary Schedule for each day (including traveltime) in which they are engaged in the actual performance of their duties as prescribed by the Board. While serving away from their homes or regular place of business, Board members and other appointees serving on an intermittent basis under this section shall be allowed travel expenses in accordance with section 5703 of title 5, United States Code.

80 Stat. 499;
83 Stat. 190.

“(f) All departments and agencies of the Government are authorized to cooperate with the Board and to furnish information, appropriate personnel with or without reimbursement, and such financial and other assistance as may be agreed to between the Board and the department or agency concerned.

Standards,
promulgation.

84 Stat. 797
84 Stat. 798

“(g) The Board shall from time to time promulgate cost-accounting standards designed to achieve uniformity and consistency in the cost-accounting principles followed by defense contractors and subcontractors under Federal contracts. Such promulgated standards shall be used by all relevant Federal agencies and by defense contractors and subcontractors in estimating, accumulating, and reporting costs in connection with the

pricing, administration and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of \$100,000, other than contracts or subcontracts where the price negotiated is based on (1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law or regulation. In promulgating such standards the Board shall take into account the probable costs of implementation compared to the probable benefits.

“(h)(1) The Board is authorized to make, promulgate, amend, and rescind rules and regulations for the implementation of cost-accounting standards promulgated under subsection (g). Such regulations shall require defense contractors and subcontractors as a condition of contracting to disclose in writing their cost-accounting principles, including methods of distinguishing direct costs from indirect costs and the basis used for allocating indirect costs, and to agree to a contract price adjustment, with interest, for any increased costs paid to the defense contractor by the United States because of the defense contractor's failure to comply with duly promulgated cost-accounting standards or to follow consistently his disclosed cost-accounting practices in pricing contract proposals and in accumulating and reporting contract performance cost data. Such interest shall not exceed 7 per centum per annum measured from the time such payments were made to the contractor or subcontractor to the time such price adjustment is effected. If the parties fail to agree as to whether the defense contractor or subcontractor has complied with cost-accounting standards, the rules and regulations relating thereto, and cost adjustments demanded by the United States, such disagreement will constitute a dispute under the contract dispute clause.

Cost-accounting methods, advance disclosure by defense contractors.

Interest ceiling.

“(2) The Board is authorized, as soon as practicable after the date of enactment of this section, to prescribe rules and regulations exempting from the requirements of this section such classes or categories of defense contractors or subcontractors under contracts negotiated in connection with national defense procurements as it determines, on the basis of the size of the contracts involved or otherwise, are appropriate and consistent with the purposes sought to be achieved by this section.

Exemption.

“(3) Cost-accounting standards promulgated under subsection (g) and rules and regulations prescribed under this subsection shall take effect not earlier than the expiration of the first period of sixty calendar days of continuous session of the Congress following the date on which a copy of the proposed standards, rules, or regulations is transmitted to the Congress; if, between the date of transmittal and the expiration of such sixty-day period, there is not passed by the two Houses a concurrent resolution stating in substance that the Congress does not favor the proposed standards, rules, or regulations. For the purposes of this subparagraph, in the computation of the sixty-day period there shall be excluded the days on which either House is not in session because of adjournment of more than three days to a day certain or an adjournment of the Congress sine die. The provisions of this paragraph do not apply to modifications of cost accounting standards, rules, or regulations which have become effective in conformity with those provisions.

Proposed standards, transmittal to Congress.

- Publication in
Federal
Register.
- 84 Stat. 798.
84 Stat. 799.
- 80 Stat. 381,
392.
- Records,
availability.
- Report to
Congress.
- Appropriation.
- “(i)(A) Prior to the promulgation under this section of rules, regulations, cost-accounting standards, and modifications thereof, notice of the action proposed to be taken, including a description of the terms and substance thereof, shall be published in the Federal Register. All parties affected thereby shall be afforded a period of not less than thirty days after such publication in which to submit their views and comments with respect to the action proposed to be taken. After full consideration of the views and comments so submitted the Board may promulgate rules, regulations, cost-accounting standards, and modifications thereof which shall have the full force and effect of law and shall become effective not later than the start of the second fiscal quarter beginning after the expiration of not less than thirty days after publication in the Federal Register.
- “(B) The functions exercised under this section are excluded from the operation of sections 551, 553-559, and 701-706 of title 5, United States Code.
- “(C) The provisions of paragraph (A) of this subsection shall not be applicable to rules and regulations prescribed by the Board pursuant to subsection (h)(2).
- “(j) For the purpose of determining whether a defense contractor or subcontractor has complied with duly promulgated cost-accounting standards and has followed consistently his disclosed cost-accounting practices, any authorized representative of the head of the agency concerned, of the Board, or of the Comptroller General of the United States shall have the right to examine and make copies of any documents, papers, or records of such contractor or subcontractor relating to compliance with such cost-accounting standards and principles.
- “(k) The Board shall report to the Congress, not later than twenty-four months after the date of enactment of this section, concerning its progress in promulgating cost-accounting standards under subsection (g) and rules and regulations under subsection (h). Thereafter, the Board shall make an annual report to the Congress with respect to its activities and operations, together with such recommendations as it deems appropriate.
- “(l) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this section.”

VITA 2

Owen Bernard Moseley

Candidate for the Degree of

Doctor of Philosophy

Thesis: AN HISTORICAL ANALYSIS OF THE EVENTS LEADING TO THE ESTABLISHMENT OF THE COST ACCOUNTING STANDARDS BOARD

Major Field: Business Administration

Biographical:

Personal Data: Born in Rector, Arkansas, January 12, 1942, the son of Mr. and Mrs. L. B. Moseley.

Education: Graduated from Rector High School, Rector, Arkansas, in June, 1959; attended Freed-Hardeman College, Henderson, Tennessee, September, 1959 through June, 1960; received a Bachelor of Arts degree with a major in accounting and business from Harding College, Searcy, Arkansas, in May, 1963; received a Master of Business Administration degree from University of Arkansas-Fayetteville, in June, 1966; attended Arkansas State University, Jonesboro, Summer, 1968; attended University of Arkansas-Fayetteville in the summers of 1969 and 1971; attended State College of Arkansas-Conway, in 1972-1974; completed the requirements for the Doctor of Philosophy degree at Oklahoma State University, in December, 1976.

Professional Experience: Auditor, Haskins and Sells, 1963-1965; Graduate Assistant, University of Arkansas-Fayetteville, 1965-1966; Management trainee, Campbell Soup Company, 1966; Assistant Professor and Acting Chairman of Accounting Department, Baptist University, 1967-1969; Instructor and Assistant Professor of Accounting, State College of Arkansas, 1969-1974; Auditor and Researcher, Arkansas State Legislative Auditor, Summer, 1972; Graduate Teaching Assistant, Oklahoma State University, 1974-1976; Assistant Professor of Accounting, Murray State University, 1976 to present.

Professional Organizations: American Accounting Association, American Institute of Certified Public Accountants, and Academy of Accounting Historians.