economy, because unemployment in distresssed areas lessens buying power in the marketplace. As President John F. Kennedy pointed out in his economic report to Congress, in January 1962:

> In the last decade, the Nation has lost an estimated $175 billion of gross national product by operating the economy below potential.

Being situated in a labor surplus area is a handicap to any firm—particularly one which finds its market within the area. Senator John Sparkman, chairman of the Select Committee on Small Business, explained the serious effect that substantial and persistent labor surplus areas have on the many small businesses in these areas as follows:

> The merchants and distributors in distressed areas must attempt to sell their goods to people whose incomes are well below the national average. The small manufacturer must hire from the sometimes less skilled laboring force which distressed areas afford and must sell to the depressed local markets. If a small manufacturer hopes to get part of the Government's defense business through a subcontract award, he finds that few prime contracts are going to any distressed region. He must therefore attempt to sell to a prime contractor situated hundreds or thousands of miles away, despite the tendency for prime contractors to let subcontracts to firms in their immediate vicinity.[3]

Government spending is now approximately one-sixth of the gross national product and the Defense budget is now approaching one-tenth of the gross national product. President Kennedy recognized that, with proper direction, these funds could be used as a tool to regenerate the depressed economies of labor surplus areas. As a presidential candidate in 1960, he said:

> Economists tell us that an unemployment rate of 6 percent is the danger signal. When a community passes that point it is officially regarded as an area of "substantial labor surplus." If it remains there it is entitled to special Government help through defense procurement and other programs.[4]

Another witness, Ronald M. Linton, Director of Economic Utilization Policy, Department of Defense, estimated that every job created in a labor-surplus area through Government procurement would, in turn, cause the demand for three services jobs.[5] The consensus of opinion of the witnesses who appeared before your subcommittee was that the direction of Government spending in labor surplus areas, though not an answer in iteslf, could and should be used to alleviate conditions in these areas and initiate recovery. That view is summarized by Dr. Conley H. Dillon, professor of government and politics at the University of Maryland, and consultant to the Governor of West Virginia:

> Such measures, by themselves, may be insufficient to eliminate completely the pockets of unemployment which exist in the United States. But they could accomplish a great deal. And since the machinery for implementing them is already in place, it would seem practical to throw the switch that will set it into operation.[6]

In the first months of the present administration, a national policy of encouraging the placement of contracts in areas of substantial and persistent labor surplus was established under defense manpower policy No. 4 (DMP No. 4).[7] Many of the witnesses expressed the opinion that the policies of DMP No. 4 were not being implemented

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[3] Hearings, pp. 1–2.
[4] Speech, Charlestown, W. Va., Sept. 19, 1960, Senate Commerce Committee, S. Rept. 994, pt. 1, 87th Cong., 1st sess., Sept. 13, 1961, p. 1034.
[5] Hearings, p. 55.
[6] Hearings, p. 182.
[7] Hearings, app. I, p. 157.