to the extent they should be.[8] According to Harold W. Williams, Acting Administrator, Area Redevelopment Administration, U.S. Department of Commerce, redevelopment areas get only 3.7 percent of defense spending, though they contain 19 percent of the Nation's population and produce about 10 percent of the Nation's goods.[9] Less than one-third of these funds were placed in distressed areas through the partial set-aside program.[10]

The relative dearth of defense contracts in distressed areas can, in part, be explained by the nature of the firms in these areas. In addition to the handicap of often being located in resource- and skill-deprived areas, they usually do not have the funds to investigate and carry through the complicated procedures for taking full advantage of opportunities in Government contracting. Thus, distressed areas find themselves trapped in a vicious circle, where their economic degeneration blocks the road to recovery.

But, the nature of firms in areas of labor surplus is only partially the reason for the relatively small share of the defense dollar they receive. Statements made at the hearing indicate that procurement officers in various agencies have often demonstrated an only-half-hearted compliance with the policies of DMP No. 4. In the approximately 85 percent of defense contracts let by negotiation, it is probable that procurement officers have often found it more convenient to deal with old suppliers rather than investigate the possibility of finding new sources in distressed areas. Though it may be easier for a procurement officer to assess the capabilities of an old supplier in negotiating a contract rather than investigating the possibility of using a new source, such action puts expediency and departmental objectives above national policy.

The dearth of defense contracting in labor-surplus areas can further be explained by a congressional impediment to the implementation of DMP No. 4, section 523 of the Defense Appropriations Act, which expressly forbids a price differential to be paid in order to avoid economic dislocation. This has been interpreted by the Department of Defense and the Government Accounting Office to forbid 100-percent set-asides to labor-surplus areas. The following case, cited by Mr. Linton, clearly demonstrates the implications of section 523:

> * * * one of the first cases I ran into was where a contract was awarded to a low bidder, who was a low bidder by $250,000. The result of the award was the second low bidder closed his plant and 1,200 people were put out of work. I did an exercise for the particular Secretary who made the decision showing that the $250,000 the Department saved actually cost the Government $950,000 because of those lost jobs. The reply of the legal department was "That is fine. We agree with you; we have looked at these things, but we can't figure these things into our costs because the Congress said we can't." [11]

Thus, the Department of Defense's saving of $250,000 cost the American people $700,000. This sort of procurement procedure clearly places departmental over national objectives.

The following sections of this report discuss the relation of the creation of some distressed areas to shifts in defense spending; a survey of action now being taken to encourage Government contracting in areas of labor surplus; and a series of recommendations which your subcommittee believes will improve the ability of firms in distressed

[8] Hearings, pp. 3, 38, 58, 181.
[9] Hearings, p. 2.
[10] Hearings, p. 85.
[11] Hearings, p. 56.