of the production within labor-surplus areas. It urges procurement agencies to set aside portions of procurements exclusively with firms which will perform a substantial proportion of the production within labor-surplus areas. The directive which seems to have been least implemented is the one which states that all Federal departments and agencies shall give consideration to labor-surplus areas, particularly to persistent labor-surplus areas, in the selection of sites for Government-financed facilities expansion, to the extent that such consideration is not inconsistent with essential economic and strategic factors that must also be taken into account.

The President himself, in a memorandum to the Cabinet and principal agencies, dated February 27, 1962, stated his personal concern for using the weight of the Federal Government to give preference to redevelopment areas in the awarding of contracts. In view of this, the question arises why so few contracts are placed in substantial and persistent labor-surplus areas. The answer lies partly in an amendment attached to the Defense Appropriations Act of 1957. This amendment has been placed in every appropriation act since 1953, and in the current act (sec. 523, Public Law 87–577) reads as follows:

> *Provided further,* That no funds herein appropriated shall be used for the payment of a price differential on contracts hereafter made for the purpose of relieving economic dislocations.

This amendment has turned out to be disastrous for a successful implementation of DMP No. 4, because of the interpretation placed upon it by the Office of the Comptroller General of the United States in opinion B–145136, dated March 3, 1961. In this opinion the Comptroller General stated:

> On the record we must construe the limitation in question as precluding the expenditure by the Defense Establishment of appropriated funds under any contract awarded on the basis of a labor surplus area situation at a price in excess of the lowest obtainable on an unrestricted solicitation of bids or proposals.

Because of this opinion, a program has had to be devised which has been set forth in part 8 of the Armed Services Procurement Regulation (ASPR) and subpart 1–18 of the Federal Procurement Regulations (FPR) respectively.[22] Detailed explanation of these regulations may be found in the statement of James E. Welch, Deputy General Counsel, General Accounting Office.[23]

Explained briefly, the program works as follows:[24] Where a Government procurement is severable into two or more economic production runs, and where one or more labor-surplus-area concerns are expected to have the technical competency and productive capacity to furnish a severable portion of the procurement at a reasonable price, such portion or portions may be reserved, i.e., set aside for exclusive award to labor-surplus-area concerns. Such set-asides enjoy preference over small business set-asides. Furthermore, in case of a tie bid, a firm located in a labor-surplus area is given preference, even through the procurement may not have been set aside for labor-surplus firms.

In awarding a contract for a procurement set aside for a labor-surplus area, negotiations are conducted only with responsible labor-surplus-area concerns (and small business concerns to the extent

[22] Hearings, p. 93.
[23] Hearings, pp. 93 and 94.
[24] Hearings, pp. 136 and 137.