

levels, the community is far better off than thousands of other communities where defense shifts have played a considerably smaller role—or no role at all—in creating economic hardship.

Nevertheless, the Committee recognizes that there are and will be some communities—particularly small and isolated ones—whose economic fortunes are very heavily tied to continued defense activities and whose very existence can be threatened by its termination. If an action of the Federal Government withdraws their major economic support, the residents of such communities have a strong case for special Federal assistance—a stronger case perhaps than that of other communities which may suffer equally from the exhaustion of a mineral resource, the diversion of trade, or the business failure of their principal private employer. The Committee will continue to study possible criteria for distinguishing the case of such communities.

However, the difficulties extend far beyond those of identifying a special dependence on defense work. The criteria of efficiency suggested at the beginning of this chapter preclude solutions which permanently and artificially sustain an existing economic pattern in a community. In particular, the Committee does not accept any solution based either on the continuance of unneeded defense activities or on providing, on more than a temporary basis, a special procurement advantage not justified by costs and efficiency.

The Committee intends to study further the problem of providing special assistance to those few communities which may be so heavily dependent on defense activity that its termination in those areas threatens their continued existence.

AIDS TO DEFENSE FIRMS

The Committee welcomes the recent actions of the Department of Defense and NASA which clearly state that companies may charge to their defense or space contracts an allocable share of the costs of generalized long-range management planning. We understand that AEC already views such costs as allowable.

Numerous additional suggestions have been made for the Government to assist and encourage defense contractors to diversify into nondefense markets. One suggestion is to allow defense contractors to charge as overhead costs on their Government contracts some portion of the initial efforts required to begin a commercial diversification program, such as the development of generalized marketing capability and exploratory planning for commercial products. The Committee intends to review the application of the 1964 amendment to procurement regulations and, in the course of that review, the merits of the above suggestion should be considered. The Committee has rejected as completely inappropriate, as well as ineffective, the alternative suggestion that larger profit margins be allowed on defense contracts in order to provide increased corporate funds for investment in diversification efforts.

There appear frequently to be cases in which, as a result of a decline in defense work, a company using a Government-owned defense manufacturing or development facility finds that it has a large amount of unutilized or underutilized capacity, even though the remaining volume of defense work requires the continued operation