

charged, inequities between contractors, and in some cases, reduced rent payments to the Government. This occurs because the regulation allows the contractors to compute rent based on overall allocations of the workload between Government and non-Government work according to the relationship of various factors—such as sales, labor hours, or machine hours—rather than computing rent machine-by-machine according to the ratio of shared usage of the particular machine.

Chairman PROXMIRE. You say the regulation allows and the contractors to compute rents. Those are the allocations you are talking about?

Mr. STAATS. Yes.

Chairman PROXMIRE. Do they have discretion? Can they do it on a different basis and choose the one most favorable to them?

Mr. STAATS. I think the regulation permits them. I think our quarrel is with the regulation.

Mr. HAMMOND. Basically, the regulation provides for rental in accordance with the value of the equipment and on the basis of usage. But in some cases for ease of administration and ease of computation, rent is computed on the basis of sales, a certain percentage of sales. We found in those cases, as indicated in our report, sometimes there was a less recovery in terms of rent than would have been had it been computed on the value of the property.

Chairman PROXMIRE. Have you made any study at all, or has anybody made any study of what would happen if you just didn't let them use this equipment for anything except Government work, period—that is it?

After all, there might be some losses to the contractor if you did that, but certainly there is an inequity. It seems to me it is very hard to assess fair rentals. You would solve a problem if you did this. Why not consider that possibility? It might be a very efficient and quick way of reducing the amount of Government-supplied equipment.

The incentive on the part of the contractor to insist on this Government-supplied equipment would be sharply reduced.

Mr. BAILEY. It might generate some difficult problems, too, Mr. Chairman, in terms of contractors setting up a production line where he has to put a particular piece of equipment in this line to perform, let's say, a milling operation or a lathe operation, something of this kind. This becomes a part of his total work in this area.

Chairman PROXMIRE. If it is, under that circumstance certainly he ought to buy it himself. Sell it to him. I can understand if you have an exceptional situation where the Government needs some kind of exotic equipment for a Vietnam action or some new antimissile, or atomic kind of construction that is new and different, and may only be used once and then discarded, under these circumstances. But if you are going to buy something that fits right into his regular assembly line operation that he can use anyway, and use any significant amount of time for his own commercial production, this is just unfair competition as well as exploitation of the taxpayer.

Why don't you consider, at least, this fairly radical suggestion? Consider the possibility of what would happen and ask the Defense Department. We will ask the Defense Department to try and justify their position in permitting any use of Government-supplied equipment.