

would be plainly illogical to require that the university uniformly provide its share through the payment of all or a part of the indirect costs. Only in the exceptional case would this turn out to be the best basis for determining the appropriate sharing of costs.

A third problem relates to the means for furnishing major capital assets for research at universities (such as a major building or a major piece of equipment such as a linear accelerator, synchrotron, or large computer). In most cases, it will be preferable to finance such facilities by a separate grant (or contract), which will ensure that careful attention is given to the long-term value of the asset and to the establishment of appropriate arrangements for managing and maintaining it.

*Arrangements with respect to not-for-profit organizations other than universities*

It has been the practice in contracting for research and development work with such organizations to cover all allowable costs and, in addition, to provide what is commonly called a "fee." The reason for paying a "fee" to not-for-profit organizations is quite different from the reason for paying a fee to profit-making contractors and therefore the term "fee" is misleading. The profit-making contractor is engaged in business for profit. His profit and the return to his shareholders or investors can only come from the fee. In the case of the not-for-profit organizations, there are no shareholders, but there are two sound reasons to justify payment of a "development" or "general support" allowance to such organizations.

One is that such allowances provide some degree of operational stability and flexibility to organizations which otherwise would be very tightly bound to the precise limitations of cost financing of specific tasks; the allowances can be used to even out variations in the income of the organization resulting from variations in the level of contract work. A second justification is that most not-for-profit organizations must conduct some independent, self-initiated research if they are to obtain and hold highly competent scientists and engineers. Such staff members, it is argued, will only be attracted if they can share, to some extent, in independently directed research efforts.

We consider that both of these arguments have merit and, in consequence, support the continuation of these payments. Both arguments represent incentives to maintain the cohesiveness and the quality of the organization, which is in the interest of the Government. They should underlie the thinking of the Government representatives who negotiate contracts with not-for-profit organizations. But the amount of the "fee" or allowance in each instance must still be determined by bargaining between Government and contractor, in accordance with the independent relationship that is essential to successful contracting.

An important question relating to not-for-profit organizations other than universities, concerns facilities and equipment. In our judgment, the normal rule should be that where facilities and equipment are required to perform research and development work desired by the Government, the Government should either provide the facilities and equipment, or cover their cost as part of the contract. This is the rule relating to profit organizations and would hold in general for not-for-profit organizations—but there are two special problems with respect to the latter.