

First, we believe it is generally not desirable to furnish funds through "fees" for the purpose of enabling a contractor to acquire major capital assets. On the other hand, the Government should not attempt to dictate what a contractor does with his "fee", provided it has been established on a sound and equitable basis, and if a contractor chooses to use part of his "fee" to acquire facilities for use in his self-initiated research, we would see no objection.

Second, we would think it equitable, where the Government has provided facilities, funds to obtain facilities, substantial working capital, or other resources to a contractor, it should, upon dissolution of the organization, be entitled to a first claim upon such resources. This would seem to be a matter which should be governed, insofar as possible, by the terms of the contract—or in the case of any newly established organizations, should be provided in the provisions of its charter.

Salaries and related benefits

In addition to the question of fees and allowances, there has been a great deal of concern over the salaries and related benefits received by persons employed on federally financed research and development work in private institutions, particularly persons employed in not-for-profit establishments doing work exclusively for the Government. Controls have been suggested or urged by congressional committees and others to make sure that there is no excessive expenditure of public funds and to minimize the undesirable competitive effect on the Federal career service.

We agree that where the contracting system does not provide built-in controls (for example, through competitive bidding), attention should be paid to the reasonableness of contractors' salaries and related benefits, and contractors should be reimbursed only for reasonable compensation costs.

The key question is how to decide what is reasonable and appropriate compensation. We believe the basic standard for reimbursement of salaries and related benefits should be one of comparability to compensation of persons doing similar work in the private economy. The President recently proposed to the Congress that the pay for Federal civilian employees should be based on the concept of reasonable comparability with employees doing similar work in the private economy. We believe this to be a sound principle which can be applied in the present circumstances as well.

Application of this comparability principles may require some special compensation surveys (perhaps made by the Bureau of Labor Statistics), which can and should be arranged for as necessary. Furthermore, there will undoubtedly be cases in which comparable data are difficult to obtain—as, for example, with respect to top management jobs. In such cases the specific approval of the head of the Government contracting agency or his designee should be required.

In view of the inherent complexity and sensitivity of this subject, we suggest that special administrative arrangements should be established in each agency. Contract policies respecting salaries and related benefits in each contracting agency should be controlled by an official reporting directly to the head of the agency (in the Department of Defense, to assure uniformity of treatment, by an official reporting directly to the Secretary of Defense), and salaries above a certain level—say \$25,000—should require the personal approval of that official.