Honorable Homer K. Capehart  
Chairman, Committee on Banking  
and Currency  
United States Senate  
Washington, D. C.

Dear Senator Capehart:

This is in reply to your letter of April 4 requesting our views concerning S. 413, a bill "To encourage the making of contracts with the United States by requiring the inclusion of an escalator clause to provide adjustments for approved price and wage increases."

It would appear that the bill as introduced contemplated continuation of the wage and price controls of Title IV of the Defense Production Act of 1950, as amended. Its objective seems to be the adjustment of government contract prices to reflect the increased costs of labor and materials resulting from upward revisions of the ceilings imposed on such wages or prices of materials by the Economic Stabilization Agency. That basis for the proposed legislation has been removed, of course, by the expiration of the authority to apply such controls and we assume that general application of the escalator clause to government procurement is not intended since such a policy would conflict directly with the accepted principles of competitive bidding.

The Bureau of the Budget advises that it has no objection to the submission of this report.

Sincerely yours,

/s/ ARTHUR S. FLEMMING  
Director